

RAILWAYS ACT, 1921.

PROCEEDINGS OF THE RAILWAY  
RATES TRIBUNAL.

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SCHEDULES OF STANDARD CHARGES.

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WEDNESDAY, MAY 28<sup>TH</sup>, 1924.

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THIRD DAY.

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# PROCEEDINGS OF THE RAILWAY RATES TRIBUNAL.

WEDNESDAY, MAY 28TH, 1924.

PRESENT :

W. B. CLODE, Esq., K.C. (*President*).

W. A. JEPSON, Esq.

GEO. C. LOCKET, Esq., J.P.

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## THIRD DAY.

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THE SOLICITOR-GENERAL (SIR HENRY SLESSER, K.C.) and Mr. W. BOWSTEAD (instructed by the Treasury Solicitor) appeared on behalf of the Minister of Transport.

THE LORD ADVOCATE (THE RT. HON. H. P. MACMILLAN, K.C.), MR. A. C. CLAUSON, K.C., MR. BRUCE THOMAS and MR. ALFRED TYLOR (instructed by the Honorary Solicitors) appeared for the Railway Companies' Association.

THE HON. R. STAFFORD CRIPPS appeared for the London County Council.

MR. F. G. THOMAS, K.C., and MR. JACQUES ABADY (instructed by Sir Thomas R. Ratcliffe-Ellice) appeared for the Mining Association of Great Britain.

SIR DOUGLAS HOGG, K.C., M.P., and MR. F. J. WROTTESELEY appeared for the Traders' Coordinating Committee; The National Association of Railway Travellers; and the following local authorities: The boroughs of Leeds, Cardiff, Oldham, St. Helens, West Ham, East Ham, Gravesend, Richmond, Dartford, Southport, Watford, Leamington Spa, Morecambe, and Rotherham; and the Urban District Councils of: Mitcham, Heston and Isleworth, Teddington, Wallington, Surbiton, Harrow-on-the-

Hill, Prestwich, Epsom, Carshalton, Barnet, Hampton, Bexley Heath, and Staines.

MR. HERBERT MORRISON appeared for the National Joint Council of the Trade Union Congress; The Labour Party; and the London Labour Party.

MR. W. G. R. BOYS and MR. HUGH SHAYLER appeared for the Civil Service Confederation.

MR. S. CARLILE DAVIS appeared for the Plymouth Incorporated Mercantile Association.

MR. GEO. DEW, J.P., L.C.C., appeared for the National Association for the Promotion of Cheap Transit.

MR. JACQUES ABADY (instructed by Messrs. Kensholes & Prosser, Aberdare) appeared for the Cardiff Collieries, Limited.

MR. A. MOON appeared for the Midland Association of Blast Furnace Owners.

MR. F. C. BORER represented Messrs. Harrods Staff Council.

MR. EDWIN CLEMENTS (instructed by Messrs. Neish, Howell & Haldane) appeared to watch the proceedings on behalf of various Objectors to the Schedules of Standard Charges.

Mr. W. McLoven Hamilton: Might I be allowed to make a very short statement on behalf of the Port of Manchester Warehouses Limited, of Trafford Park, Manchester?

President: I suppose it will be fairly short?

Mr. Hamilton: It is quite short, Sir.

President: Very well.

Mr. Hamilton: In view of the case which my Company intend to make before the Tribunal, we desire to submit to the Tribunal at the commencement of these proceedings in regard to Section 63 of the Railways Act, 1921, that the Amalgamated Railway Companies should be required by the Rates Tribunal to lodge with them and publish before the later stages of the inquiry are reached a statement showing: (a) the gross revenue to be raised and the expenditure expected to be incurred, together with the amount of capital involved, in respect of the Company's general merchandise, and, (b) the gross revenue to be raised and the expenditure expected to be incurred in respect of the receiving into and delivery from such warehouses or buildings of the goods stored therein. My Company desire to inform the Rates Tribunal of our wish to submit to the Court that the provision of warehouses and the service of warehousing is a business carried on by the Amalgamated Railway Companies ancillary or subsidiary to their Railways, coming within the provisions of Section 63 (4) of the Railways Act, 1921. My Company would be obliged if the Court will

kindly indicate when they will be prepared to hear the submission upon this point, which my Company intend to make, and the evidence which my Company are prepared to give if and when the Tribunal take into consideration under the provision of Section 63 (4) the charges made by the Amalgamated Railway Companies in respect of warehousing. My Company desire respectfully to suggest that the Tribunal should hear their case when the Court considers the figures of anticipated expenditure which will no doubt be put in by the Railway Companies for the purpose of arriving at the gross revenue to be raised in order to provide the standard revenue. You will understand, Sir, that I am not now submitting our case, but simply referring to our intention to do so, in order that you may appreciate the desirability of asking the railway companies for this information.

President: Yes, Mr. Hamilton. All I can say is this, that the railway representatives are here, that your statement will appear upon the note, and that they will give such attention to it as they think it deserves. It is impossible for me to tell you when and where, or if at all, your case will be heard; but it must be, as you say, a matter for future consideration, and I think you have done sufficient for the purpose of to-day, to bring your intention to the notice of the railway companies. That is all I can tell you.

Mr. Hamilton: Thank you, Sir.

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MR. JOHN QUIREY.

[Continued.]

MR. JOHN QUIREY, Recalled.

Examination continued by Mr. CLAUSON.

299. Just turning back again for the moment to the 1st Folio in R.T. 3a, you have now dealt with items Nos. 1 and 2?—Yes.

300. Turning now to item 3, that refers, of course, to the sum which is mentioned in Section 58 (1) (a)?—That is the next item.

301. That is to say, a sum equal to 5 per cent. on capital expenditure forming the basis on which interest was allowed at the end of the period during which the constituent companies and subsidiary companies were in the possession of the Government?—Yes.

302. Now may we put a date on that? What was the date which makes the end of the period there mentioned?—15th August, 1921.

303. I do not know whether it would be convenient if you would state, if you can, quite shortly—we can verify it, if necessary, later by looking at the documents—what was the capital expenditure on which interest was, under the arrangements with the Government, to be allowed as mentioned in that subsection?—The expenditure related to the first seven items in Account No. 8, and the arrangements relating to the interest on capital are contained in what is known as the pink pamphlet, or pink book—supplementary clauses to the original agreement with the companies.

Mr. Clauson: I do not know whether the Tribunal have got the pink book?

President: I have several pink books, but whether I have your pink book or not, I do not know.

Mr. Clauson: This is called "Railway Executive Committee, State Control of Railways."

President: No, I have not got that.

Solicitor-General: It is at page 19 of the "Principal Letters and Documents relating to Railway Agreements." It is bound up. My friend has it as a separate document, but it is in the General Principal Letters and Documents relating to Railway Agreements, 1920.

President: Command Paper No. what?

Mr. Clauson: I was not proposing to trouble the Tribunal with it at this moment, but it is convenient to have the reference.

Solicitor-General: It is Command Paper No. 1132 in the blue book, and it is at page 89.

Mr. Jepson: I have not got a blue book here.

President: But you are not doing more than referring to it?

Mr. Clauson: That is all, Sir. I thought it would be convenient.

304. Now that we have got on the note a reference to the place where we can find the exact details, if required, perhaps it would be convenient if you were just to summarise what the capital expenditure in question was?—Interest was to be allowed upon all sums expended upon capital on works brought into use since 31st December, 1912; works including rolling stock and plant, and land used in connection with works, and also mineral support for lines actually in use during the period of control, which have been acquired since 31st December, 1912. Interest allowed under that first agreement was at 4 per cent. on the amount expended, and the allowance was made when the works were brought into use. That arrangement ran until the 1st May, 1919, and in a few instances it was carried on to the 1st February, 1920. The second arrangement is known as the 5 per cent. increase on new capital. It is contained in the same volume of the blue book, beginning at page 108. That was a change in the arrangement. Interest was then allowed upon expenditure incurred from the 1st May, 1919, to the 15th August, 1921, upon works for which the sanction of the Ministry of Transport had been first obtained.

305. Mr. Jepson: Was that 5 per cent. limited to those works which the Ministry of Transport sanctioned, and the 4 per cent. was carried on for works on which 4 per cent. had been allowed up to

1919?—Yes. The 5 per cent. was allowed upon works incurred since the 1st May, 1919, where the Minister of Transport's sanction had first been obtained. If the work had been commenced earlier and was carrying on, it was subject to the 4 per cent. arrangement.

306. Right up to 1921?—Yes.

Mr. Locket: And ran *pari passu*?—Yes.

307. Mr. Clauson: Now the figures of that expenditure have not yet been actually settled in the case of any of the companies with the Government?—That is so.

308. I do not know whether you are able to give, if you are asked, the approximate figures of the amount which has been settled, and the amount remaining still unsettled?—Yes, I can give those figures.

309. President: Will you give them?—The total amount claimed upon is £37,361,596.

310. Mr. Clauson: That is all the four companies?—The four amalgamated companies. The capital expenditure claimed upon is £37,361,596, and the amount claimed at 5 per cent. is £1,868,079. Of that sum £295,076 has not yet been agreed with the Government. The capital representing that sum of £295,076 is £5,901,549. The amount not yet settled with the Government represents about 16 per cent. of the total.

311. Mr. Jepson: When you say the total amount claimed upon is £37,000,000 odd, and the amount represented at 5 per cent. on that is £1,868,000, where does the 4 per cent. come in?—The 4 per cent. does not come into this case at all. The 4 per cent. represented the amount paid by the Government upon capital expenditure to the companies; but the claim under 58 (1) (a) is for 5 per cent. on the amount of capital expenditure in the Government claim.

312. Mr. Clauson: I just wanted to get that clear, as I understand that the basis on which this claim in folio 1, R.T. 3a, in respect of the third item, proceeds is this, that there will be a capital figure which, for the moment, we can only estimate, because it is not finally settled, but on that figure the section tells us to put 5 per cent.?—Yes.

313. Quite apart from any question as to what the interest allowance from time to time was under the former arrangements with the Government?—Yes.

314. Mr. Jepson: Yes, I quite understand that, Mr. Clauson; but I did not quite follow Mr. Quirey's answer when he gave the total of the claims unsettled with the Government, some of which, at least up to a certain date, were at 4 per cent., and from a certain date 5 per cent. Apparently there is nothing outstanding on the 4 per cent.?—I should have said that the amount I quoted, of £5,901,549, represents the capital sum in the claims not settled with the Government; but upon that £5,000,000 we claim under the section 5 per cent.

315. I am afraid it is not very clear. Tell me, what does the £37,000,000 represent. It is a capital expenditure of all the four amalgamated companies in respect of which a claim was made on the Government from the commencement of the war, 4th August, 1914, up to the 15th August, 1921?—Yes. The £37,361,596 represents the capital expenditure upon which we claimed interest from the Government at the 15th August, 1921.

316. Yes?—Now, part of that was subject to 4 per cent. from the Government, and part 5 per cent.

317. That is what I thought you said; but when you gave me the figure of £1,868,079 I understood that was all calculated at 5 per cent.?—That is so.

318. That is 5 per cent. of that total amount of £37,361,596?—Yes.

Solicitor-General: I want to make a suggestion about this, if I may. We have received some figures as to the purported settlement; we have only just seen them. I think if my friend would agree that the whole of this particular item should stand over for a day or two, probably we could agree this part

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Mr. JOHN QUIREY.

[Continued.]

of the case, and you would not have this, some settled and some unsettled. We could tell you what is settled and what is not. If my friend would pass on to (b), for example—something else—and just leave this question of the Government figure which is, after all, the figure to be ascertained, and 5 per cent. is to be taken, I think we could save a good deal of trouble by agreeing what, after all, must be a matter of fact ultimately, but at the moment we are not able to agree or disagree as to the particular figures. We only want to save the time of the Tribunal.

*President:* That appears to be a convenient course, Mr. Solicitor, and I do not see that anyone can have any objection to that, because the figures will at some time have to be canvassed.

*Solicitor-General:* It will be an ascertained sum, and I think if we are given a day or two we may make a certain amount of progress in simplifying this part of the case.

319. *Mr. Clauson:* I am very much obliged to the Solicitor-General, and I entirely agree with what he says. This is a figure which is going to be fixed sooner or later, and when the figure is fixed with the Government, as the Lord Advocate said yesterday, the only thing with which the Tribunal will be concerned will be the calculation of 5 per cent. upon it; that is so, is it not?—That is so.

320. And we will not trouble as to how much is settled or how much is unsettled at the moment. At all events, your statement, so far as this item is concerned, simply proceeds on the footing of taking the figure and calculating 5 per cent. upon it?—Yes.

321. For the purpose of reaching item No. 3?—Yes.

322. Now we can pass on from that. I just want to turn now to item No. 4 which deals, of course, with Section 58 (1) (b)?—Yes.

323. I ought just to ask you one thing, to get it on the note, before we leave item No. 3. The details of the claim in item No. 3 are to be found in Schedule C, are they not?—Yes, Schedule C of this book.

324. But there, again, we will not trouble with the detail of that at the moment, for the reason which the Solicitor-General has given. Now turning to item 4, that deals with the matter in Section 58 (1) (b), which is in these terms: "Such allowance as may be necessary to remunerate adequately any additional capital which may have been raised or provided in respect of expenditure on capital account incurred since the 1st January, 1913 and not included in the expenditure referred to in the last preceding paragraph, unless it can be shown that such expenditure has not enhanced the value of the undertaking?"—Yes.

325. I just want to ask you this, to get it clear. Assume that some of the claims which the company is making in respect of Section 58, sub-section (1) (a) are disallowed by the Government as not coming within the terms of the basis on which interest was allowed by the Government?—Yes.

326. What would the effect of that disallowance be as regards the figure claimed under Section 58 (1) (b)?—There would be a corresponding error in Section 58 (1) (b). If the amount in 58 (1) (a) is overstated, the amount in 58 (1) (b) is understated.

327. *Mr. Locket:* It amounts to this, that any sums which might be disallowed by the Government under 58 (1) (a) would have to be added in respect of 58 (1) (b)?—That is so. 58 (1) (b) would have to be adjusted.

328. *Mr. Clauson:* And accordingly, what Sir Douglas Hogg remarked in the course of the Lord Advocate's opening, namely that items which the Government had not allowed in respect of (a) would be claimed under (b) is perfectly right, is it not?—Quite right.

329. Now will you tell the Tribunal—shall we take the London, Midland and Scottish case first—as to the method you have pursued in making up that figure of £237,548, which is the amount in the

accounts of the London, Midland and Scottish of item 4?—Yes. We have taken each constituent and subsidiary company, and have extracted the outlay as shown in Capital Accounts Nos. 4 and 5 of each year since 1913. We have put into 58 (1) (b) the items not included in our 1 (a) claim. We continued with each constituent and subsidiary company up to the date immediately prior to amalgamation or absorption. We added to the total thus obtained the capital expenditure of the amalgamated company from its incorporation or constitution.

330. Down to what date?—Down to the 31st December, 1923—the latest date available.

331. And accordingly this figure which you have so reached will ultimately need to be increased by similar expenditure from the 31st December, 1923, to the date, whatever it is, on which the final calculation is made?—Yes.

332. Now has there been any difference between the method on which this figure has been calculated by some of the companies and the method on which it has been calculated by others?—Yes.

333. Would you just explain to the Tribunal shortly where the difference lies, and which is the company that has made the difference?—Three companies have proceeded on the lines I have stated—the London and North Eastern, the London, Midland and Scottish, and the Southern. We have in our claims allowed for all credits for sales or displacements since the 1st January, 1913, but not any reduction of capital expenditure owing to adjustments made at the date of vesting. The capital accounts of the constituent and subsidiary companies were aggregated at the date of amalgamation, and on an examination of figures it was found that the practices of the companies had varied, with the result that in some instances it meant the purging of the account, as I call it—the taking out of the account of items prior to 1913, or perhaps embayment to 1913, for displacements not replaced, or for items included as capital expenditure which, in the opinion of the amalgamated company, should not be charged to capital account. The examination of these figures of aggregation has now disclosed that one or two trifling allowances must yet be made, but in the case of the Great Western Company they have given credit for all adjustments of the nature that I have explained made in their capital account at the date of vesting, with the result that their claim under 58 (1) (b) is reduced.

334. May I take a typical case, just to show the way in which the matter works as regards the adjustments made on amalgamation. Let us take this case, that before 1913 one of the constituent companies has not written off its capital account, has failed to write off its capital account, an item of displacement, say, which in the opinion of the amalgamated company ought to have been written off?—Yes.

*President:* Are you alluding to the steamer that was mentioned?

335. *Mr. Clauson:* I will take a steamer as an example; it is a very good one. Take a steamer lost in 1911, not written off the capital account by the company to which it then belonged—the Lancashire and Yorkshire, we will say?—Yes.

336. On amalgamation that springs to light?—Yes.

337. And an adjustment is made, to use your expression, to purge the capital account of that item?—Yes.

338. Now would you just tell the Tribunal whether in your view, it would or would not be right to treat that adjustment as being a sum to be credited against the capital for which allowance is to be made under 58 (1) (b)?—In my opinion, it is not necessary to make the allowance. The asset had disappeared before 1913, and the revenue of that year did not include any earnings in respect of the asset, and the allowance which is made to us in respect of capital expenditure incurred since the 1st January, 1913, and we have construed that to mean the net expenditure on capital account—that is, amounts



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Mr. JOHN QUIREY.

[Continued.]

actually expended less sales and displacements since the 1st January, 1913.

*President:* But according to you it could not come in, could it—I mean this was a steamer lost before 1913?

339. *Mr. Jepson:* Although the credit was taken in the capital account after 1913?—Yes.

340. Supposing, just as an assumption, that the steamer had been lost in 1914 or 1915, and credit had been taken, do you suggest that it would have been right to have brought in the credit to your claims?—That is so.

341. In the same way as you explained, or as the Lord Advocate explained yesterday, certain credits for sales of lands that had taken place since 1913 have been credited to your account?—That is so. All the companies have credited such an item as you have explained—a steamer lost since the 1st January, 1913.

*President:* Are there many of such items where the asset has disappeared, so to speak?

*Mr. Clouston:* Since 1913?

*President:* Yes.

342. *Mr. Clouston:* Will you just answer that, Mr. Quirey? Are there many cases where there have been displacements or losses of assets since 1913 of the nature of which you speak as items which ought to be credit against capital raised?—Yes, there are numerous entries of that class to be seen in the schedule.

343. Will you give us an example, so that we may follow it? Just point to an example in the schedule. Which schedule are you referring to?—Schedule D, page 6 of the London, Midland and Scottish blue book.

344. R.T. 3a?—R.T. 3a, the last line on page 6: "Sundry Credits for Land, etc., Sales and Removal of Disused Workings, etc.", a total credit of £134,830. Now those are in respect of sales and removals since the 1st January, 1913, with, perhaps, the possible exception of some minor entries that had been displaced prior to 1913 but were in fact written out of the capital account some time between 1913 and 1923.

345. *President:* But, at all events, what you have done is contained in that entry, and if anybody wants to know any more about it they have got to question you about that entry?—Yes.

*Mr. Clouston:* That is it.

346. *Mr. Jepson:* Just to clear one point in my mind about steamers lost since the war—we know several of the railway companies lost their steamers during the war; they were sunk by submarines, and so on—as a matter of fact, was there capital written down, or did they get the compensation from the Government to make the thing good, or how was it dealt with, because I notice in this London, Midland and Scottish statement as regards steamboats you have an amount of £233,000 included in the claim under 33 (1) (b)?—That would be the cost of additional steamers.

347. After allowing credits for any compensation and necessarily writing down capital?—Yes, writing out the old steamer and writing in the new; that was their practice.

348. *Mr. Clouston:* Just turn to folio 8 of "R.T. 3a" to follow this. I see there is an item there, about the middle of the page, "Steamboat; sale of ferry boat"?—That was a Tilbury Section ferry boat, which we sold, and the amount was written out of capital account.

349. Now as regards these adjustments on amalgamation, of which I have given an example just now, are those mere book-keeping entries, or do they represent a real post-1913 transaction?—In many instances the item is merely a book-keeping transaction. A steamer lost is only one class of the adjustments made.

350. Would you just give the other classes, just to explain it?—The principal class of adjustment made, so far as I have ascertained, is with regard to horses

and carriage plant. I would take my own company as an example of that, if I may. Some of the constituent companies and one subsidiary company charged as capital expenditure, horses and carriage plant. Others of the constituent companies dealt with their horses and carriage plant as a stock account, which would be found in the balance-sheet. An example of that would be the Glasgow and South-Western Company's account, if I might refer to it.

351. Would you refer to the page?—Yes; page 114.

352. Page 114 of the book containing the published financial accounts of the London, Midland and Scottish Railway?—Yes, the large blue book; the balance sheet of the Glasgow and South-Western Railway Company, the last entry but one on the credit side, horse stock and carriage plant, £26,754. Now, with regard to those companies which had charged this asset as capital expenditure, when making the amalgamation entries in our books we excluded the charge from capital and charged the amount against one of our free reserves; we removed the item from capital, but our contention is that the revenue position of the company is in no way altered on the 31st day of December, 1922. These assets were in the capital account and they were revenue earning. On the 1st of January, 1923, when the item was transferred from the capital expenditure account, that account reduces the horses and carriage plant which still existed and were available as revenue-earning appliances as before. Our view is that such a transaction is a book-keeping transaction only and is not such an amount as should be deducted from the capital expenditure claimed under Section 53 (1) (b).

353. You have given that example. Is there another class of entries relating to investments included by the constituent company in its capital account?—Yes. In our own case there are two small adjustments in that class here; a loan to the Maryport Harbour Commissioners of £10,000, and a holding of Cambrian Railway stock of £15,000, but in the case of the Southern Railway Company—

354. *President:* What did you do with the £10,000 and the £15,000 which you want to explain to us?—We took the amounts out of the capital expenditure account and put them into the balance sheet as an asset.

355. *Mr. Clouston:* And, in your view, that amounts to a mere book-keeping adjustment, and in no way affects the capital position for any purpose material to this Inquiry?—That is so.

356. *Mr. Jepson:* What was the object of taking the Maryport Harbour loan of £10,000 out of capital? Of course it was provided out of capital in the first instance, but what was the object of taking it out of the capital account and putting it into the balance sheet as an asset?—It may have been that we had not Parliamentary authority to make the contribution; I do not know. I know the fact only, but not the circumstance. I can ascertain it.

357. I am speaking from memory now but you can tell me if I am correct. Up to a certain time the Maryport Harbour Bonds did bring in the 4 per cent. as revenue; I think they have not for some time, but you can tell me if I am right. Would it make any difference at all supposing they did become remunerative again, the fact of them not being in the capital account and being shown as an asset in the balance sheet; it would not make any difference to the amount earned being credited to net revenue?—None whatever. The amount would be credited to net revenue account.

358. *Mr. Clouston:* Both those two last investments which you spoke of go back to a period before 1913, do not they?—They do.

359. And then the third class of adjustments that we have already mentioned is a case where you have written out of capital account sums which do still remain in the accounts in respect of works displaced before 1913 which we gave a typical example of, a steamer lost in 1911?—Yes.

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[Continued.]

360. Now the difference between the method you have spoken of, that you have pursued in the case of your company and what I may just call for the moment the Great Western method is this, that the Great Western method has given further credits against capital than those which you think the company is bound to give?—Yes.

361. The exact way in which that has been done the Great Western accountant will tell us?—Mr. Cope will explain it.

362. Mr. Jepson: I understood from you that the practice adopted by the London, Midland and Scottish was also the practice adopted by the London and North Eastern and the Southern Railway Company?—Yes.

363. The Great Western are the only people who have taken a different course?—Yes.

364. Mr. Clouston: The accounts could be quite easily adjusted if the Tribunal holds that your method is the more correct one. The Great Western accounts could quite easily be brought into line, and *vice versa*, should the Great Western view be considered the best, your accounts could quite easily be brought into line?—Yes.

365. Would it involve going through each item, I suppose, of credit, to see which class it fell within according to the decision of the Tribunal?—It would mean an examination of the vesting entries.

366. I just want, before passing from it, to ask you this. You have Schedule D before you. Will you tell the Tribunal the way in which Schedule D is compiled and what analysis of the items you have thought it convenient to make?—By arrangement with the Traders' Co-ordinating Committee Accountants we divided up the capital expenditure over the headings shown in Columns 2 to 8 of Schedule D. That is the amount expended upon the railways, upon omnibuses, steamboats, canals, docks, hotels, and other items.

367. I think you have treated works costing less than £5,000 on a rather different line, have you not?—We have set out in detail the works which cost £5,000 or more, but the smaller works costing less than £5,000 we have summarised according to the nature of the work.

368. I do not suppose there will be any dispute about it, but I should like to get this point clear. How have you dealt in Schedule D with joint lines, the two classes of joint lines, "J" joint lines, and non-"J" joint lines?—Non-"J" joint lines would be included with the company's expenditure; "J" joint lines have been brought in separately, and the ownership proportion of each of the parent companies has been dealt with in the respective schedules.

Mr. Jepson: Are you going to give us a concrete illustration of that, or may I ask the witness a question?

Mr. Clouston: Perhaps you would ask the witness, Mr. Jepson?

369. Mr. Jepson: Take such a line as you mentioned before, "J" joint lines. Supposing the Cheshire Lines had to spend capital on this undertaking, of course it would have to get it, I suppose, from the parent companies in equal proportions?—Yes.

370. What you mean then is this, that so far as that money was supplied by the parent company it would come in here under the respective heads. For instance, you get a portion since the amalgamation of the London, Midland and Scottish, and the other two-thirds would probably be found in the London and North Eastern?—Yes; but we did not deal with the contributions made by the parent companies to the "J" joint lines, but we took the accounts of the "J" joint lines themselves and dealt with their capital expenditure, the amount actually expended by the "J" joint lines.

371. As shown in their own accounts?—Yes, as shown in their own accounts.

372. And then you divided into thirds, one-third or two-thirds?—You can see, for example, on page 20 of the London, Midland and Scottish account the Cheshire Lines Committee entry. The net result of

expenditure on the Cheshire Lines was a credit altogether of upwards of £11,000. The London, Midland and Scottish proportion is one-third, £3,854. The other "J" joint lines follow out on page 20.

373. Mr. Clouston: I will not go into further detail on that. If any question is raised you could answer questions about it?—If you please.

374. Under 58 (1) (b) there has to be such allowance as may be necessary to remunerate adequately any additional capital?—Yes.

375. On what principle have you proceeded in the figures you have put in here?—We have assumed that the capital to be raised in respect of the expenditure claimed upon here will be raised in thirds, that is, one-third from debenture stock, one-third from preference stock and one-third from ordinary stock.

President: Is there not an intermediate stage as to what is done in the meantime before it is necessary to raise this capital? It is raised or provided. How did they meet the expenditure in the schedule?

376. Mr. Clouston: Let us just follow that, Mr. Quirey, first, before we go on to the remuneration. Will you answer that?—The reconciliation statement of the capital expenditure since 1st January, 1913, to the 31st December, 1913, with these two plans will be available some time shortly. Taking the expenditure under 58 (1) (a), deducting from that the amount expended prior to 1913 upon works brought into use since the 1st January, 1913, we get a net expenditure included in (1) (a) from the 1st January, 1913. We had then to claim under 58 (1) (b).

President: Are you giving us what the net expenditure is in figures?—I can give you it.

377. Mr. Clouston: The position as regards this, I understand that Mr. Quirey has got out a statement which is actually in the printer's hands at the moment, is it not, Mr. Quirey?—It is.

Mr. Clouston: So that when we get the prints of it we can put before the Tribunal the figures to which Mr. Quirey will be able to speak; but for the moment, unfortunately, the prints are not available. I do not know if Mr. Quirey can give the approximate figures.

President: Perhaps if it is a long table of figures it would be better to wait for the prints, if that is satisfactory to the opponents.

Mr. F. G. Thomas: Yes, I think that would be so.

Mr. Clouston: I think it would be more intelligible than coming out on the notes in this form.

President: Then perhaps you can give us roughly what you provided and what you raised.

378. Mr. Clouston: Give it to us roughly, Mr. Quirey?—In the case of the London, Midland and Scottish Company the total capital expenditure claimed under (1) (a) and (1) (b) as incurred since the 1st January, 1913, was £14,629,703. The cash received from capital raised was £5,553,504, leaving as capital provided £8,076,199. The London, Midland and Scottish Company has been able to provide this capital from the amount of increases in their free reserves since 1913—the amount of undistributed profits.

379. Accordingly, so far as the London, Midland and Scottish is concerned, that has been provided, as I gather, from the source of free reserves?—From free reserves.

380. Or rather from the increase in free reserves since 1913; is not that the position?—That is the exact position.

President: They have not had recourse to what the Lord Advocate called the dedicated funds.

381. Mr. Clouston: I think we must get this clear. You are speaking, Mr. Quirey, of free reserves not earmarked to anything at all?—I am speaking of reserves which in the discretion of the directors and the proprietors could be distributed as dividends.

382. Reserves which the shareholders could have divided among themselves but left there in the concern, and being left there and so provided were used for capital expenditure; is that right?—Yes.

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[Continued.]

383. *Mr. F. G. Thomas*: Should not the last figure you gave be 9 millions instead of 8 millions?—I am sorry; it should be £9,076,199.

384. *Mr. Locket*: That did not include any of the compensation money received from the Government, did it?—The free reserves include the amount of Government compensation not allocated to special funds but held as a reserve for contingencies.

385. *Mr. Jepson*: I want to get it quite clear in my mind that none of this capital has been provided from anything like the accumulated funds belonging to superannuation, pensions or savings bank, or such things as those?—That is so.

386. It has come entirely out of the moneys which have been put by from net revenue?—Yes, plus the unallocated portion of the Government compensation.

*President*: That is why I drew attention to it. Your learned leader, Mr. Clauson, drew attention to dedicated reserves. I understand the Witness to say this only applied to free reserves and that they never touched the dedicated reserves.

387. *Mr. Clauson*: Precisely. That is as regards the London, Midland and Scottish. (To the Witness): Was the position the same, or, if not, how did it differ, as regards the other companies?—The Southern Company has also been able to meet the capital expenditure claimed under 58 (1) (b) out of moneys representing free reserves.

388. *President*: Before it was 58 (1) (a) and (b) when you spoke of your own company—the London, Midland and Scottish. You are limiting this now to 58 (1) (b). I understand?—I should not have limited it. It is 58 (1) (a) and (b) for both. The Southern Company have been able to meet the capital expenditure under (1) (a) and (1) (b) out of capital raised and out of moneys representing free reserves.

389. *Mr. Clauson*: Will you now give us the others?—The London and North Eastern and the Great Western Companies have not been able to meet the whole of the expenditure under 58 (1) (a) and 58 (1) (b) from cash received from capital raised, plus moneys representing the increase in free reserves. The deficiency is small. In the case of the London and North Eastern it stands at £222,489. In the case of the Great Western it is £203,864. In these two cases capital has been provided from money representing earmarked reserves.

390. *Mr. Jepson*: You said it had been provided by capital already raised, plus the increase in free reserves. Do you mean the increase in their free reserves since 1913?—That is right.

391. *Mr. Clauson*: It is since the 31st December, 1912, to be quite accurate, is it not, Mr. Quirey?—Yes.

392. *Mr. Jepson*: Were not the free reserves in operation on the 31st December, 1912, available for this purpose without touching the earmarked funds?—We are not entitled to consider that as additional capital provided since the 1st January, 1913, because the net revenue for the year 1913 includes the earnings of the free reserves that then existed.

393. *Mr. Clauson*: It comes to this, does it not, Mr. Quirey, that for the purposes of this Inquiry we must not go into the capital as at the 31st December, 1912, because that is all dealt with by giving us, if I may so express it, the 1913 revenue in respect of that capital?—That is our view.

394. Is that your point?—That is the point I wish to make.

*Mr. Jepson*: I suppose—you will correct me if I am wrong—the same thing operates with regard to the free reserves in existence during 1913 not having been spent in the way of capital expenditure. I suppose they would still be earning and bringing in net revenue in the same way as the accumulated free reserves in hand on the 31st December, 1912.

*Mr. Clauson*: No doubt.

*Mr. Quirey*: Is the only reason why you cannot touch those free reserves before 1st January, 1913, the fact that they were earning no revenue?

395. *Mr. Clauson*: For the purposes of this Inquiry I think that is the reason why we may not bring them into account, because the scheme of

giving the 1913 revenue and saying that is to be the remuneration for the capital as it stood on 31st December, 1912, makes it impossible for us to go back to that old pre-1913 capital—for the purposes of this Inquiry of course. That is the principle on which we have been proceeding, rightly or wrongly. (To the Witness): I want to get this clear. I am not sure whether I used language which was a little inaccurate. You told us that as regards the London, Midland and Scottish the capital expenditure beyond that which was raised was provided out of free reserves?—Out of the moneys representing the increase in free reserves.

*Mr. Clauson*: That is what I wanted to get clear, because I am not sure that I did not use language inaccurately.

*President*: I have got it that it was provided out of the increase in free reserves.

*Mr. Clauson*: Yes—since the 31st December, 1912. I just want to get it quite clear.

*Witness*: That is so.

396. *Mr. Clauson*: That applies to the London, Midland and Scottish and the Southern Companies?—Yes.

397. And in the case of the other two companies there is the comparatively small further amount which you have mentioned which should come out of what you speak of as the earmarked reserves?—Yes.

398. Perhaps it would be convenient if you were to explain that statement for a moment, so that we can follow what you are referring to when you speak of earmarked reserves? Earmarked for what?—I had in mind such items as increases in the depreciation funds, the funds being earmarked for the renewal of the working-stock.

*President*: Are those companies did not raise any capital. We are not told that they have raised any capital at all.

399. *Mr. Clauson*: Perhaps we could just get that clear, Mr. Quirey?—All the companies have raised capital since the 1st January, 1913.

400. All the companies have raised capital?—Yes.

*Mr. Clauson*: The London, Midland and Scottish and the Southern Companies have spent on capital expenditure something in excess of what they have raised, and the amount they have spent is all covered by the increase in free reserves since 31st December, 1912. The other two companies have also raised capital. They also had free reserves, but their increase in free reserves since 31st December, 1912, and the capital raised have not been sufficient to meet the capital expenditure, and the balance has been met out of what Mr. Quirey has referred to as earmarked reserves.

*President*: And he gave the amount of capital received and capital raised in the case of the London, Midland and Scottish, but he has not given it in respect of any other companies. He will, however, give it when his detailed paper is handed in.

401. *Mr. Clauson (to the Witness)*: Perhaps you will give the approximate figures now, and the exact figures will appear in the printed paper which we shall produce?—The cash received for new capital raised by the London and North Eastern was £4,401,453; the Great Western £5,298,615; the Southern £2,959,520.

*Mr. Locket*: Shall we have particulars of the form in which this capital has been raised?

402. *Mr. Clauson*: I suppose those particulars could be provided, could they not, Mr. Quirey?—They could be provided, but they are not ready.

403. They do not appear in any of these schedules?—They do not.

404. I find I have a statement which I think puts in a convenient form many, at least, of the figures which you have just had. Perhaps I might hand this in. (Same handed in. See Appendix.)

*Mr. Locket*: The question of the form in which this capital has been raised would have a bearing upon the point we have to decide as to the remuneration to be allotted for the capital under this particular section with which we are dealing.



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[Continued.]

405. *Mr. Clauson*: I was coming in a moment to the question of the allowance. At the suggestion of the President I have been dealing for a moment with the way in which the capital was raised and provided. We will go on in a moment with the question as to the allowance and as to the way in which the capital would be raised. (*To the Witness*): Taking this printed statement, which I have handed in, have you got it before you?—Yes.

406. Tell the Tribunal exactly what it shows, so that we may follow it. We will mark it "J.Q.1."?—This is a statement of the capital expenditure since the 1st January, 1913, upon which allowances are claimed under 58 (1) (a) and 58 (1) (b), and a comparison of the amount with the sums of capital raised and capital provided *ex free reserves*. In the first column the London and North Eastern claim for capital expenditure under 58 (1) (a) £14,154,478. Now that claim included expenditure in 1912, or earlier, upon works which were brought into use since the 31st December, 1912, and included in the Government claim; but by deducting that expenditure from the claim under 58 (1) (a) we get the expenditure included in that claim which has been incurred since the 1st January, 1913. The amount is £10,432,948. The claim under 58 (1) (b) for the London and North Eastern Company is £3,300,165 capital expenditure, together amounting to £13,821,113. But there was included in the capital expenditure of the company a sum of £250,074 incurred since the 1st January, 1913, but not included in either of the claims, because it was expended upon works which had been brought into use prior to 1913—in 1912, say. We therefore get a figure for the London and North Eastern of the expenditure on capital account as per the accounts of the constituent and subsidiary companies there of £13,871,187. The proceeds of new capital raised are £4,401,453.

407. If I may just interrupt you at that point, there would be no difficulty, I suppose—except the matter of time—in providing the details of the £4,000,000 and of the corresponding figures of the other companies, showing how the new capital was raised, whether by stocks or shares, or whatever it may have been?—The details can be obtained. Of course, this capital was raised at rather an exceptional time.

408. Yes; that will be a matter for comment. Will you now proceed, please?—The increase in the free reserves, including the Government compensation not appropriated, is £8,847,245. The total raised and the increase in free reserves amount to £13,248,698, which is £622,489 short of the amount of capital expenditure incurred since the 1st January, 1913.

409. Accordingly it comes to this, does it not, that as regards the £622,000 it must have come out of something which was not either capital raised or capital provided out of free reserves?—Yes.

410. Accordingly the thing it must have come out of must have been either the earmarked reserves or such balances as the company may have had from superannuation funds or sources of that description; is that right?—Yes—moneys representing those items.

411. *Mr. F. G. Thomas*: Are we to add those words "not appropriated to any special purposes"?—Yes—"not appropriated to special purposes."

*Mr. Jepson*: I have put those words on my copy. I supposed that would be correct.

*Witness*: Of course, the appropriation to contingencies is from free reserves.

412. *Mr. Jepson*: I notice you show the claim under 58 (1) (a) as being £14,154,478, less expended prior to 1913 £3,000,000 odd, and you bring it down to £10,000,000. Why do you take out that £3,700,000 expended prior to 1913? Is it because it will come in as a claim under (c)—capital not remunerated?—No. It will not come under 58 (1) (c). It was capital expenditure upon works not in use in 1912, but being brought into use in 1913 under the arrangements with the Government it falls to be remunerated under the terms of the Pink Pamphlet at 4 per cent.

413. Up to the 15th August, 1921?—Up to the 15th August, 1921. But it was not capital expenditure incurred since the 1st January, 1913; it was incurred and met prior to 1913—in 1912 or earlier.

414. *Mr. Clauson*: The point is this, is it not, that Section 58 (1) (a) may give us—in fact does give us—an allowance in respect of some capital expended before 1913?—Yes; if upon works brought into use in 1913.

415. There is one thing I want to ask you—again I am afraid it is to correct an inaccurate wording of one of my questions. You spoke of the deficiency necessarily coming out of either earmarked reserves or such things as superannuation fund balances, and so forth. That will mean coming out of increase in earmarked reserves since the 31st December, 1912, will it not?—In each case.

416. And in the same way, increase of superannuation fund balances since that date?—Yes.

*Mr. Clauson*: I just wanted to get that clear.

*Mr. Jepson*: It is not clear to my mind now. I do not quite follow why that £3,721,530 is deducted, because under 58 (1) (a) it seems that the 5 per cent. is to be allowed on the capital expenditure, forming the basis upon which interest was allowed by the Government. Now I understand from Mr. Quirey that the interest allowed by the Government was on £14,000,000—the first figure.

*Mr. Clauson*: Certainly.

*Solicitor-General*: I do not know if I can help you. A memorandum was put in by the Ministry explanatory of our views on this matter on the 20th November, 1923, which comments on these figures. I think it makes it clear: "I am directed by the Minister of Transport"—then he refers to information as to claims under 58 (1) (a). It is an amplification of the first memorandum. Have you got that, Sir?

*Mr. Jepson*: Yes.

*Solicitor-General*: "This further information has now been examined, so far as it is possible at the moment, and I am to submit the following observations in continuance of my letter of the 13th July"—that is, the earlier observations. "Claim under Section 58 (1) (a), (i) Item 3 relates to the allowance under Section 58 (1) (a) in respect of capital expenditure which formed the basis of the companies' claim for interest on capital under the terms of the Railway Agreements. These are in respect of two classes of expenditure (a) expenditure incurred at any date prior to the 1st May, 1919, on works brought into use between the 1st January, 1913, and the 15th August, 1921 (4 per cent. interest claim); (b) expenditure incurred from 1st May, 1919, to 15th August, 1921, the works not necessarily having been brought into use during that period (5 per cent. interest claims). The two claims are fully described in the published letters and documents relating to the Railway Agreements." So that there the division is drawn between the 4 per cent. on the earlier claims and the 5 per cent. That was in accordance with the Agreement.

*Mr. Jepson*: I quite follow that, Mr. Solicitor; but the point in my mind was this, that quite irrespective of the difference in treatment of these items by the Government, some being 4 per cent. and some being 5 per cent., 58 (1) (a) of the 1921 Act seems to provide that the railway companies should be entitled to 5 per cent. on the whole of the amounts.

*President*: The Government recognise it as a liability either at 4 per cent. or 5 per cent.

*Mr. Clauson*: That is the view we have taken. It was on that view we have proceeded.

*President*: I did not understand why this £3,721,000 was deducted if it was part of the amount on which the Government allowed the railway companies either 4 or 5 per cent.

*Mr. Clauson*: May I put it in this way—I believe rather rashly, because I am not quite sure that Mr. Quirey will agree with me—but I will venture to put it as I understand it, and Mr. Quirey will then explain it. As I understand it the point of this first



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column is to show what has been the capital raised or provided since the 31st December, 1912, and how far it has been raised or provided out of increase in free reserves since that date. Accordingly, for that purpose we must confine ourselves to capital which has been expended since the 31st December, 1912. It is perfectly true that under Section 58 (1) (a) we are allowed by the Government, and we get under the Act, certain allowances for some capital expended before the 31st December, 1912; but we eliminated that from our (1) (a) claim.

Mr. F. G. Thomas: No, I do not think that is so.

Mr. Clauson: We eliminate that in this statement.

President: Yes, in this statement.

Mr. Clauson: From the figure of our (1) (a) claim.

Mr. F. G. Thomas: That is what I understood. I did not understand this figure to be a reduction of your claim.

Mr. Jepson: That is the point which I wanted to get clear in my mind—whether it was a reduction of your claim under 58 (1) (a).

Mr. Clauson: We eliminate the figure in our 58 (1) (a) claim for this purpose, because to leave it in would not show a true picture of what has been raised and provided since the 31st December, 1912, for expenditure made since the 31st December, 1912. That is my attempt at it. I do not know if Mr. Quirey will agree.

Witness: That is right.

Mr. Jepson: These figures will not agree necessarily with what we find in "R. T. 3a."

417. Mr. Clauson: I quite agree. (To the Witness): Do you mind commenting and saying if that is quite wrong?—That is quite right.

Mr. Clauson: As a matter of fact—it is unkind to criticise—but we might have taken out that £3,000,000 lower down and then I think it would have been more intelligible.

Mr. Locket: Are not those items of expenditure charged in 1913 in respect of works executed in 1912, but not paid for and not brought into the accounts till 1913?

418. Mr. Clauson: That is it precisely. (To the Witness): There is just one thing, Mr. Quirey, I want to get clear if I can. So much capital is raised and there is a difference between the amount of capital raised and the expenditure?—Yes.

419. And that difference may be greater in some cases than the amount of the increase in free reserves?—Yes.

420. It must come from somewhere. This is right, is it not? It is impossible to say in respect of any particular item of expenditure what it comes out of, because it comes out of what I may describe as a reservoir of all sorts of things containing free reserves, earmarked reserves and all sorts of other things?—Yes, out of the floating balances.

421. And accordingly one cannot say with any accuracy that this expenditure comes out of that particular portion of what is in that reservoir?—No; we cannot connect the expenditure with how the amount was provided.

Mr. Clauson: Quite; I just wanted to get that clear.

President: I understand Mr. Quirey will give the details that my colleague desired of the way in which the capital has been raised, at a future time. He cannot give it now.

Witness: We will put it in hand.

Mr. Clauson: We will find out how long it will take to produce the detail. The complication is that some of the money has been raised in small sums, and you cannot say if they guarantee so much—4 or 5 per cent. Therefore, it will take a little time to get the details grouped; but it shall be done.

President: Mr. Quirey said he would put it in hand.

Mr. Clauson: Quite; so that we shall be able to show in the case of each company how the capital has been raised—at what price.

Witness: It will mean having recourse to the books at the head office of the old companies.

Mr. F. G. Thomas: I may say that we on this side attach considerable importance to having those details.

President: That is why I thought I would ask Mr. Clauson to be good enough to furnish them.

Mr. Clauson: Of course it may be material to one's argument on the ground of the allowance that has to be made.

Mr. Locket: That is what I had in my mind.

Mr. Clauson: That is quite obvious. I am coming to one or two points on that in a moment. Before we leave this printed statement, Mr. Quirey, I confess it does not seem to me that the heading is very happily worded as expressing what the statement contains. I think if we could alter that heading it would save misconception on a future occasion.

President: It is very misleading.

Mr. Jepson: It was certainly misleading to me, because it was on the basis of that heading that I raised all those questions.

Mr. Clauson: Quite so. It really is a summary statement of capital raised and provided. I think that is the most accurate way of expressing it. It really is this: Summary statement of capital raised and provided in respect of expenditure since 31st December, 1912. Perhaps we could substitute that heading?

Mr. Jepson: Perhaps that heading could be corrected before it gets on to the shorthand note. If that is done it may save a lot of misapprehension in the future.

Mr. Clauson: If the Tribunal will allow us to do that it will save confusing other people's minds as much as it confused mine.

President: What were the last words you suggested?

422. Mr. Clauson: "In respect of capital expenditure since 31st December, 1912." I think that is as nearly accurate as we can get it. (To the Witness): Now I want, Mr. Quirey, to ask you one or two questions in connection with another expression in 58 (1) (b) before we leave it. I want to ask you about the words "such allowance as may be necessary to remunerate adequately." On what principle have you proceeded in making your calculation on the allowance necessary to remunerate adequately?—I have taken it to mean that the allowance should be at least equal to the cost to the company of issuing new capital at the present time, assuming that the amount is raised as to one-third debentures, one-third preference and one-third ordinary, eliminating from the present-day price the amount of accrued interest or dividend. But I have not been able to ascertain what would be the probable expense of issuing new stock, and I have assumed that as the amounts provided are large the effect of placing such large sums on the market might bring down the price. This subject will be spoken to more fully by Sir William Plender at a later time.

423. But I just want to get at what figure you have in fact used in bringing out the figure of £237,548 in item 4 on folio 1 in R. T. 3a?—We have used 6 per cent. as being in our opinion the average cost to the company of raising new capital in the proportions I have indicated.

424. President: The Lord Advocate said debentures at 5 per cent., preference at 5½ and ordinary at 7½?—That was roughly.

425. Mr. Clauson: The Tribunal will hear more about this from Sir William Plender?—If you please. I have no information regarding any of the companies except my own.

426. Mr. Jepson: What is the capital account now of the London, Midland and Scottish?—£23,193,654—say 23 millions.

427. That is up to the end of last year?—Up to the end of last year.

428. Mr. Clauson: In some letters by the Minister of Transport in reference to this matter it was suggested that since 1912 some substantial issues of

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[Continued.]

capital had been made at a lower rate than 5 per cent. Do you remember that?—There were two instances quoted.

429. Will you say what those instances were and say anything you wish to say about them?—There was an issue by the London and North Western Railway Company in 1915 of £1,500,000 4 per cent. redeemable preference stock. The issue price was 96. There was also an issue by the North Eastern Railway Company in the same year of £1,000,000 4½ per cent. redeemable preference stock, the issue price being 99. So far as the North Eastern issue is concerned, the holders of stock had the option of exchanging into permanent stock of the London and North Eastern Company; that is, for each £100 of their present holding of 4½ per cent. redeemable stock they could get £125 of first guaranteed stock of the London and North Eastern Company, ranking immediately after the debenture stock.

430. *Mr. Lockett*: That would not carry 4½ per cent. though?—No; 4 per cent. It was £125 at 4 per cent. The return to those who exercised the option is 5 per cent.

431. *Mr. Clouston*: So that it really comes to this: The holdings of the people who in 1914 took up 4 per cent. capital at 96, were valued on amalgamation on the 5 per cent. basis?—That is so far as the London and North Eastern item is concerned.

432. I took the London and North Western one. The North Eastern was 4½ per cent. stock at 99?—That is right. The London and North Western stock is continued in the London, Midland and Scottish Company as a redeemable preference stock, and will be paid off next year.

433. I see it appears as a redeemable stock?—Yes.

434. Have you anything to say as to the suggestion that those two instances suggest that the allowance you have made is too high?—I think they have no reference to the present allowance at all. These issues were made in 1915, and in my view they would go towards the liquidation of any outlay under the 58 (1) (a) claim. Our claim now is in relation to 58 (1) (b).

435. As regards capital provided—I think you have already dealt with that point—you have been proceeding upon the footing that that is the shareholders' money, so to speak, that has been used for capital purposes, and they are entitled to an allowance on that on much the same lines as the allowance you would get in respect of the capital you would raise from the public?—Yes.

436. I am putting it shortly; but anyway that is the view you are considering it upon?—Yes; I think that is the right way.

437. *Mr. Jepson*: What did you mean by saying that it would be used in liquidation of your claim under (1) (a)?—The capital expenditure now claimed under (1) (a). This money was received in 1915. In that period the outlay on capital expenditure would come within the Government control arrangement. Our claim in respect of 58 (1) (b) relates to a small extent to expenditure during the control period, but largely to expenditure since.

438. I did not know why you said "the liquidation of the claim". This capital has been spent in some way, of course, as your capital account has been overdrawn; but the fact of its being redeemed or written off does not affect the expenditure on which your claim is made, does it?—No; it was an unfortunate remark. I should have said the money was received in 1915 and would be used for capital expenditure at that period.

439. *Mr. Clouston*: There are just one or two small points I want to get from you, Mr. Quirky, but I am not quite sure how far they will be material. Just tell me this. The companies, as a rule, hold, do they not, considerable balances on account of superannuation fund and on account of savings bank deposits and things of that kind?—Yes.

440. In respect of those, I suppose the position always is that the company has to account for interest on those funds to the persons concerned, whether it

be the savings bank or the superannuation fund trustees or whoever it may be?—That is so. The amounts deposited in the savings bank are received by the company and form part of the floating balance of the company and earn interest which goes into the miscellaneous receipts in Account No. 8. The company credits depositors and charges against general interest, interest upon the amounts received from the depositors.

441. And in the case of the superannuation funds how does that work?—In the case of the superannuation funds the contributions are made by the members and by the company. They are held by the company and they earn interest for the company by being on deposit or investment. The superannuation fund is credited with interest in the books of the company, and the amount is debited in Account No. 9—interest, rentals and other fixed charges. The first entry is: Interest on superannuation and other funds.

442. *Mr. Jepson*: I think, to follow it out a little further—you will correct me if I am wrong—the amount paid by the company to the superannuation fund is a fixed rate; it does not fluctuate?—It is a fixed rate under the rules of the fund.

443. *Mr. Clouston*: There is just one other thing, to get it clear: Do you see any reason for drawing a distinction between free reserves and such earmarked reserves, for instance, as the depreciation fund in regard to the allowance to be made in respect of capital provided, assuming capital is provided from those sources?—I see no reason why there should be any difference in the amount to be allowed in this case.

444. You see no reason for any difference?—I see no reason for any difference for the reason that was explained by the Lord Advocate. If we do not get an allowance on the capital provided in respect of capital expenditure now we cannot get it hereafter.

445. And really that point applies as regards the superannuation fund and the savings-bank fund?—Yes, that is so. The use of moneys representing those funds does involve a debit against the account, and if the money be used for capital expenditure the credit does not come in; so that there is a hardship as against the trader in such case, but it is a temporary hardship.

446. Just explain why it is temporary?—It is temporary for the reason that the general interest credit is reduced, the debit for savings bank or superannuation runs on, and against that there is the income from the new work. Until such time as the new work becomes remunerative the trader is at a disadvantage, but if the allowance be not made the company would be at a permanent disadvantage.

447. Has any method occurred to you—any formula, if I may so express it—which in your view would put the trader in exactly the same position in regard to capital provided as he would have been in if that capital provided had been raised from the public instead of being provided?—In so far as the capital has been provided from moneys representing earmarked reserves, I think a fair solution would be that the allowance should be the same as upon moneys representing free reserves or capital raised; but that when we come to a later stage of the inquiry and proceed to ascertain the gross receipts to be obtained from the rates and charges, we could make an allowance in the estimate of income from other sources of the interest which theoretically is lost by the use of the moneys for capital expenditure.

448. As a matter of fact, would that make a very substantial difference in the figures, or not, do you know? It is difficult to say, perhaps?—It is difficult to say. I do not know exactly what it means; but the amount which has been provided out of moneys earmarked as reserves is comparatively small.

449. That is what I rather thought. So that I question whether there is really very much in the point as regards figures?—No; it would be under £100,000, I should think.

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[Continued.]

450. The important point is that unless the Companies get some proper allowance now, they will never get it in the future?—Yes, that is the Companies' point of view.

451. Now if I may turn on to item No. 5 on folio 1 of "R. T. 3a" that deals with such an allowance as appears to the Rates Tribunal to be reasonable in respect of capital expenditure not being less than £25,000 in the case of any work, and not being capital expenditure included in paragraph (a) on works which enhance the value of the undertaking, which had not at the beginning of the year 1913 become fully remunerative. Would you just point out to the Tribunal where the details of that claim are to be found, and the way in which the claim has been made up?—The details are contained in Schedule "E," and in the London, Midland and Scottish Book they commence at page 23. The method which we have adopted is to take the outlay upon works costing not less than £25,000 in any one case, incurred during a period of 15 years ending at the 31st December, 1913.

452. Turning to folio 23, I see that in the first column you have a description of the work; and then there is the date at which it is brought into use. Now just tell me this: In selecting what works you would put into your Schedule, have you had regard to the question of how far the work had become fully remunerative, or how quickly the work could have been taken to have become fully remunerative?—Yes; we have eliminated from our claim any items of expenditure which might become early remunerative, such as rolling-stock; we have not included the charges on rolling-stock provided. We have also eliminated the outlay upon steamships, and some other matters, the purchase or redemption of leaseholds, and any outlay in the nature of Parliamentary expenses or stamp duties, and charges of that kind.

453. How have you dealt with outlay on works ordered by the Government for safety reasons, such as special signalling, interlocking signals, and that class of thing?—We have eliminated such outlay from our claim—all interlocking signals, and so on.

454. As regards the 15 years, what considerations have led you to fix that as the period?—Really, that is a matter that would be spoken to by a general manager; but it was after consultation with our officers that we decided upon the period of 15 years. The matter was discussed with Sir William Plender before the Railway Rates Advisory Committee on the 12th October, 1920, and certain periods were suggested to him as the time in which the capital expenditure of a railway would become fully remunerative. Ten years was the period that was put to him, but then that included all classes of expenditure. We are taking here major works, and we considered that a period of 15 years was reasonable for that class of work.

455. There is just one other thing I want to ask you about the works. Under the section you must only bring in works which enhance the value of undertaking?—Yes; that has been our object in dealing with this. But again that matter of enhancement will not be spoken to by an accountant; our general manager will speak upon that.

456. May I put it in this way, that you have taken in here works which the general manager and the responsible officials regard as having enhanced the value of the undertaking?—Yes.

457. That is the way in which it stands?—Yes, that is how it stands.

458. I see in the fourth column of Schedule "E" that you have what is described in the heading of the column as "Percentage Allowances"?—Yes.

459. Would you just explain to the Tribunal the principle upon which that percentage allowance had been obtained, and the way in which it works on this schedule?—The formula adopted was that capital expenditure, upon the average, earned  $1\frac{1}{3}$  per cent. upon being brought into use in the year in which it was brought into use; and thereafter, for a period of 14

years there was an increase in earning power upon the average of  $\frac{1}{4}$  per cent., or say,  $\frac{1}{2}$  per cent. per year.

460. If I may just follow that, it comes to this, that you have treated it as earning  $1\frac{1}{4}$  per cent. at once?—Yes.

461. And as ultimately earning, when it is in full bearing, 5 per cent.?—Yes.

462. That makes a difference of  $3\frac{1}{2}$  per cent.?—Yes.

463. You spread your  $3\frac{1}{2}$  per cent. over a period of 14 years, which makes exactly—?— $\frac{1}{4}$  per cent. per year.

464. Or  $\frac{1}{2}$  per cent. per half-year?—Yes.

465. I do not know whether you can claim that this is more than a sort of approximate rule-of-thumb arrangement, or whether you can produce something to justify it in any detail?—The material to justify the formula is very sparse—in fact, there is not any; this is an arbitrary formula. We have looked at the earnings upon new openings in the undertakings, but the amount earned in each case was less than  $1\frac{1}{2}$  per cent. in the first year. In two or three of the cases that I looked up—there were not many new openings in the last 15 years—the amount actually earned by the undertaking in 1913, plus the allowance which we claim under Section 58 (1) (c) was, in two cases, less than the actual earnings of 1923, and in one case it was the same.

466. So that that would seem to show that your table does not err on the side of being too favourable to the railway company, at all events.

Mr. F. G. Thomas: Perhaps we might have those illustrations, just so that we may consider them.

Mr. Jepson: I think Mr. Quirey said that it was an arbitrary formula; and then Mr. Clouston tried to angle for a little justification for it.

Mr. Clouston: I think we ought to be quite frank about this. At present I must confess that we have got out this formula, and there it is; but when we try to find any full justification we cannot find it. It is really a rule-of-thumb method. We had to do something or another.

Mr. Jepson: You might have a colliery railway, for example, which might be almost immediately remunerative.

Mr. Clouston: There are all sorts of possibilities, and one has got to average them very roughly; that is all that one can do about it.

Mr. Jepson: Do you think, Mr. Thomas, that you will be very much helped if the illustrations are given?

Mr. F. G. Thomas: If they are not to be relied upon, I need not trouble with them; but they were referred to as instances.

Mr. Jepson: I think we may leave it. It is the best that they can do.

Mr. Clouston: Mr. Quirey has tried to find some data, and he has not been able to find any at all.

Mr. F. G. Thomas: I am content to leave it at that.

Mr. Clouston: I think we can leave it at that. I do not think that my learned friend would find very much advantage in pursuing enquiries as to these one or two things.

467. Now there are one or two points that I want to clear up with regard to your own company in particular, that is to say, treating you for the moment as being purely the London, Midland and Scottish Company. There is an entry which I think some of us have found a little puzzling, and I should like to get clearly from you exactly what it means. It is on folio 2 of Schedule "A," and it is in relation to the Portpatrick and Wigtownshire Joint Committee. Will you just explain to the Tribunal why you have dealt with it in the way indicated, as "Included with Owing Companies"? What exactly is the point of that entry? That remark refers only to the railway receipts.

468. President: What remark? I do not follow?—The remark "Included with Owing Companies" in column 2. The Portpatrick and Wigtownshire Joint Committee has been absorbed into the London, Midland and Scottish Company, because all the



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[Continued.]

partners—there were formerly four companies—are now in the group company. The remark refers only to the railway receipts, and they are included in the No. 10 account of the London and North Western, the Midland, the Caledonian, and the Glasgow and South Western Companies.

469. *Mr. Clauson*: Is that right? The Portpatrick Company was a "J" joint line, a joint line whose returns went under Schedule "J" in the 1911 Act?—That is so.

470. And the joint owners of the line were the companies which are all now included in the London, Midland and Scottish Amalgamation?—Yes.

471. And, accordingly, as a "J" joint line, it has lost its identity; that is the point?—Yes; it is included specially amongst the subsidiary companies because it is scheduled to the 1921 Act.

472. Quite. Now there is one other thing which I think has been mentioned, and it is just as well, perhaps, that we should get it clear. Turning to folio 3, at the foot of that page there is a special adjustment made in regard to the Barrhead Annuities Stock and Dundee and Arbroath Guaranteed Stock. I think you have mentioned it, but just to get it clear on the note will you kindly explain how you obtained that, and what the point is?—The entries will be found at page 92 of the large blue book. It is two items of receipts which the Caledonian Company included in No. 9 Account instead of No. 8 Account under the heading "Miscellaneous Receipts; Net."

473. *Mr. Locket*: The effect of it is simply to transfer it from No. 9 Account to No. 8 Account?—Yes, to put it in its proper place.

474. *Mr. Clauson*: Now there is one other matter. Turning to folio 4, will you just clear up that item a few lines from the bottom: "Add:—Caledonian Company's contribution to Cathcart District Railway not charged in Caledonian accounts until 1914." It is quite a small matter, but still perhaps we had better clear it up?—I think I explained that yesterday. The amount appears in the Cathcart District Company's Revenue Account as a receipt paid by the Caledonian Company, and it could not be traced in the accounts of the Caledonian Railway as having been charged as an expense. The making of this correction here does away with the duplication of that amount.

475. There is one other question which perhaps I ought to ask you, and which perhaps is rather formal than otherwise: In folio 3 you have added in the 4 per cent. increase in rates?—Yes.

476. I do not think you have yet formally explained exactly what that 4 per cent. was, and we ought to get it on the note, if you will just put it in a sentence or two?—It was an increase in rates for goods train traffic as on the 1st July, 1914. The increase was disputed by the traders, and as a matter of prudence the amounts were taken out of the traffic receipts and placed in suspense. Later on, when the action of the company was justified, the amount was reinstated, and is now reinstated. It was a liability provided for, but not required.

477. I am told that I have been guilty of duplication there, and that this had already been dealt with, and was on the note.

*Mr. Jepson*: I think it was dealt with. We had rather a long discussion upon it yesterday, and I was not satisfied in my mind—and I am not quite sure that I am satisfied now—that it was really taken out of the net revenue. But probably we shall get some useful criticism from the other side which will clear up the point. Mr. Quirey was dealing with the Midland Company's accounts, because he said that he understood them better than the others. The Midland Company's figure I think was £70,000, but it was included originally as having been paid, and I think, as a matter of fact, most of it had been paid; but it was included in the net revenue figure, and in dealing with the balance sheet Mr. Quirey said that they had taken the £70,000 out of the outstanding accounts and put it into their books as a suspense

account. Apparently, the £70,000, as a figure, did not appear in the Midland Company's accounts for that year at all, and therefore anybody looking at the accounts could not tell whether there had been a reserve of £70,000, or £20,000, or any figure representing the amount set aside for that possible risk. I am bound to take Mr. Quirey's answer to that, but I cannot say that I am perfectly clear in my own mind about it at present. I was intending, when other witnesses came into the box, to ask similar questions in order to find out how they had dealt with it, and if they had dealt with it in a similar way; because one would have expected that if there was £70,000 taken out of the Midland Company's revenue for 1913, even if it had been put into suspense account, it would have appeared somewhere in some other account in the printed accounts issued to the public, either as net reserve or in some account or statement where it could be found.

*Mr. Clauson*: When we get the accountants of the other companies, they will deal with the matter of exactly what they have done with it, but I think, as I have Mr. Quirey here, after what Mr. Jepson has been good enough to say, I had better ask Mr. Quirey if he can, in a sentence or two, just repeat it, with the references, so that we may see if there is any point upon it which he can clear up. I think perhaps that will be better, although it may be duplication.

*Witness*: As a matter of fact, the £70,000 is deducted from the figures printed in the Midland Company's accounts.

478. *Mr. Jepson*: Is the figure shown?—No, it is not shown as a deduction; neither are any liabilities provided for in this way shown as deductions.

479. It is not a deduction before the thing is brought into net revenue?—Yes, it is.

480. It is?—Yes.

481. It comes out before it goes into the net revenue?—Yes. If you look on page 2 of the small blue book you will see it.

482. Yes. Following that out, it is taken off the outstandings, and, of course, the outstandings come out?—Yes; it is a reserve taken out of the receipts of 1913, and these receipts are less the £70,000. The amount is included in the balance sheet. Being a reserve, it could properly have been put on the debit side, or the liabilities side, of the balance sheet, as a reserve fund for this special reason; but it was not so dealt with; it was deducted from an asset. That is the amount by which the outstanding accounts were understated, £70,000.

483. I see; and it has not been brought back. After the judgment was given, these amounts have not been brought back into the Revenue Account?—No, they have not been brought back.

484. And they still stand somewhere in the Suspense Account, or the Suspense Account has been transferred to Reserve Account, or something of that kind?—Yes.

485. *Mr. Locket*: Is it not somewhat analogous to provision for bad and doubtful debts?—Yes, it is dealt with in the same way exactly. The provision would be deducted from the receipts as shown. It reduces the outstanding amount by the amount of the reserve.

486. Any provision made for bad and doubtful debts would not appear in the balance sheet?—No.

487. *Mr. Clauson*: Now will you turn to page 27 of the London, Midland and Scottish book, the large one, and tell me if this is right: You see there under the heading of "Gross Receipts" there is "Goods Train Traffic"?—Yes.

488. "Merchandise"?—Yes.

489. And there is an item of £4,770,000?—Yes.

490. Now, is this right: One way of keeping the accounts would have been not to have put there £4,770,000, but £4,840,000, which is a figure that is greater by £70,000?—Yes.

491. And on the other side you would have put the reserve in respect of the 4 per cent. which you might have to pay back if the case went against you, namely, £70,000?—Yes.



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[Continued.]

492. And your balance sheet would have balanced, and you would have had it in every sense in the balance sheet?—Yes, on the face of the account.

493. That is the point, is it not?—Yes, that is the point.

494. And the figure would be taken into Account No. 8, the figure which is printed there, namely, the lower figure, without the £70,000?—That is so.

495. There is one other thing. As I understand it, when the litigation was over, it was clear that this £70,000 could be properly written back as a receipt, for all purposes?—Yes.

496. And what has happened is that you had in effect written it back as a receipt and written it out again as a reserve; that is the effect of what has been done, is it not?—Yes, that is the effect of what has been done.

Mr. F. C. Thomas: As I understand it, it never went into the receipts.

Mr. Clauson: No, because they wanted to keep it as a reserve; but it is the same as if they had put it back into the receipts and then carried it out as a reserve; and that leaves the figure of £70,000 where it now stands.

Now, Sir, that concludes my examination of Mr. Quirey. The arrangement with my learned friend Sir Douglas Hogg, subject to the approval of the Tribunal, was that if he was not able to be here before lunch he should cross-examine Mr. Quirey after lunch. I can now put into the witness-box one of the accountants of the other companies to speak to some of the details of the other companies; but you will appreciate, of course, that we attach considerable importance to the first cross-examination of Mr. Quirey by Sir Douglas Hogg, because he is the man who is putting the general points that we want to deal with. In order to meet the convenience of my learned friend Sir Douglas Hogg, I can call one of the accountants, but I take it that that will be done

on the understanding that at 2 o'clock Sir Douglas Hogg will cross-examine Mr. Quirey.

President: Mr. Solicitor, do you want to cross-examine?

Solicitor-General: No, Sir, not at this stage.

Mr. F. C. Thomas: I think it would probably lead to duplication if I were to ask any question in advance of my learned friend Sir Douglas Hogg, and I think that in the interests of time it will be better that I should postpone anything that I may have to ask Mr. Quirey until after Sir Douglas Hogg has cross-examined him.

497. Mr. Wrottesley: There is one thing that I should like to say: It is not a matter of cross-examination, but I believe there is a mistake on page 29 of the London, Midland and Scottish book, and, if that is so, Mr. Quirey will, perhaps, be able to put it right. It is with reference to Benfleet Station, Mr. Quirey. Can you explain it to me that the outlay on the Benfleet Station was under £25,000. It occurred in two half-years, and it is under £25,000, and so it should be struck out.

498. Mr. Clauson: A correction has to be made there?—Yes; I omitted to mention it.

499. I expect it was my fault?—No; it was a mistake which was pointed out to me by the accountant for the Traders' Committee.

Mr. Jepson: It was something between £24,000 and £25,000.

Mr. Collin: May I say this, Sir: Mr. Morrison expects to be here this afternoon, and I take it that any question that he may wish to ask may be put after Sir Douglas Hogg has cross-examined Mr. Quirey.

President: Certainly; we shall look forward to seeing Mr. Morrison.

Now, Mr. Clauson, you may proceed to call another witness.

Mr. Clauson: If you please, Sir.

Mr. RALPH COPE, sworn.

Examined by Mr. BRUCE THOMAS.

500. Mr. Cope, I think you are the Chief Engineer of the Great Western Railway Company, are you not?—I am.

501. And I think you are also Chairman of the Railway Accountants Committee?—I am.

502. Have you been associated with Mr. Quirey and the other railway accountants in preparing the statements of the companies' case which has been put before the Tribunal?—Yes.

503. Subject to one point, I take it that in the preparation of the Great Western Company's statement you have generally adopted the principles which have been expounded by Mr. Quirey?—Yes.

504. It is subject, I think, to one principal exception when we come to the claim under Section 58(1) (b). I do not think it will be necessary for you to explain the structure of the Great Western Company's book, which is "R. T. 4a"; it is the same in structure as the book which Mr. Quirey explained to the Tribunal, is it not?—Yes.

505. In addition to the preparation of "R. T. 4," you have collected together all the published accounts of the constituent and subsidiary companies of the Great Western Group for the year 1913, have you not?—Yes.

506. And those have been reprinted, and are now bound up in the palm buff volume?—Yes.

507. It is entitled "Published Financial Accounts and Statistical Returns of the Companies Forming the Great Western Railway, (as per Railways Act, 1921) for the year 1913"?—Yes.

508. I want to ask you one or two questions about these companies and their subsidiary companies, at the outset. Some of the subsidiary companies published no accounts at all in 1913, did they?—Yes; two of the companies did not publish accounts.

509. And they were?—The Forest of Dean Central Railway and the Van Railway.

510. They were non-working companies, were they not?—Yes.

511. And they were under no obligation to publish accounts under the Act of 1911?—That is so.

512. And in fact they did not publish any accounts at all?—They did not.

513. And, of course, you have nothing in the buff book relating to those two companies, have you?—No. There is a page allotted to them, but there are no figures given except the figures that were given by the working company.

514. I was just coming to that. The working company, taking first of all the Forest of Dean Central Railway, was the Great Western Company, was it not?—Yes.

515. And we shall find in the Great Western Company's accounts a charge, which is a rent charge, is it not?—Yes.

516. They are very small figures, and I do not think it is worth while spending any time over them. It is a rent charge of £179, I think?—Yes; it is on page 6 of the Great Western Company's book.

517. In the case of the Van Railway, you find an amount equivalent to the debenture stock interest paid by Van Company for the year 1913, namely, £60?—Yes, that is so; that will be found on page 233 of the Great Western book.

518. Mr. Jepson: And it is on page 18 of your Schedule "G"?—Yes.

519. Before you pass on, may I say this: I suppose all the receipts of these two companies are included in the Great Western Company's figures?—In the Great Western Company's figures in one case and in the Cambrian Company's figures in the other case.

520. Mr. Bruce Thomas: Then I think there are two other companies that ought to be mentioned, namely, the Vale of Rhedol Light Railway and the Tanat Valley Light Railway?—Yes.

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Mr. RALPH COPPE.

[Continued.]

521. They are not subsidiary companies, are they?

—No.

522. They were in existence in 1913, but between 1913 and 1921 they had been taken over by another company?—Yes, by the Cambrian Company.

523. Is that so?—Yes.

524. The Vale of Rheidol Light Railway had been worked in 1913 at a loss of £410, had it not?—Yes, that is for the first half of the year 1913, the half-year ended 30th June. If you will turn to page 53 of the Great Western Company's book you will see the Vale of Rheidol Company's accounts for the half-year.

525. Where is that £410?—It is on page 53. You will see a debit to net revenue account for the half-year of £410. That has been incorporated into the Great Western Company's accounts on page 2, where you will see in column 7, the fifth item, the debit of £410 is brought in.

526. I do not imagine that any objection will be raised to that?—I was going to say that I hoped there would be; but it is a very small figure.

527. With regard to the Tanat Valley Light Railway, it was absorbed by the Cambrian Company, I think, in the year 1921?—That is so.

528. Not under the Railways Act?—No. It was worked by the Cambrian Company in 1913, and no published accounts appear to be available. We have dealt with the amount charged by the Cambrian Company in Account No. 9, at page 42 of our book. £1,584 is the net income.

529. And you have included that in the aggregation of the net receipts for 1913?—Yes, that is so.

530. Mr. Jepson: The reason why you only included one half-year of the Vale of Rheidol Light Railway was that it was taken over on the 1st July, 1913, by the Cambrian Company?—Yes, by the Cambrian Company, and therefore their results from that date are in the Cambrian Company's accounts.

531. Mr. Bruce Thomas: I think that covers all the companies which published no accounts at all, and in respect of which you have had to make what may be called special adjustments?—That is so.

532. Now will you turn to your book "R. T. 4a"? The Great Western Company's figures appear in column 4 in heavy type?—Yes.

533. Item No. 1 is: "Total Net Income as per Account No. 8 of Published Accounts, Year 1913 (Adjusted)," which you show at £7,954,848, and that has been arrived at in exactly the same way as Mr. Quirey explained in regard to the London, Midland and Scottish Company?—Yes, that is so.

534. You have made two adjustments, have you not, in arriving at that figure, one being the 4 per cent.?—Yes, the 4 per cent.

535. And, secondly, you have had to make an adjustment, with which we will not deal at this moment, relating to the Penarth Harbour, Dock and Railway Company?—Yes, that is so.

536. First of all, I want to take the adjustment with regard to the 4 per cent. Will you turn to Great Western Account No. 10?—Yes; it is on page 7 of the Great Western Company's book.

537. Account No. 10 is headed "Receipts and Expenditure in respect of Railway Working." If you will turn to the right hand half of that account you will find an item under the heading of "Goods Train Traffic—Merchandise" of £4,501,349?—Yes.

538. Does that figure include the 4 per cent. deduction that was made?—No, it does not include it; it is minus that.

539. The actual receipts from merchandise amounted to £4,576,436, which is adding £75,087 to it?—That is so; that was the joint line and it would come in down below. It is £75,000 only on to that figure, that being the Great Western Company's provision. The £87 was the joint line; and the joint line figure, in the last line but one of the account, is £154,920, and that was the figure which was reduced by the £87.

540. So that this account altogether is less than the actual receipts by £75,087?—Yes.

541. £75,000 being the Great Western Company's amount put to Suspense in respect of the 4 per cent., and the £87 being the amount placed to Suspense by the Midland and Great Western Joint Committee?—Yes.

542. Then the amount that is carried into Account No. 8, "Net Receipts, £5,500,000 odd, does not, of course, include the £75,000?—That is so.

543. Will you tell the Tribunal how you deal with that £75,000 in your balance sheet which is on page 12?—Yes. In Account No. 18, the general balance sheet, under the heading of "Miscellaneous Accounts," the figure of £200,604 included on the debit side includes the £75,000. That figure, instead of being £200,604, would only be about £125,000 were it not for that reserve in respect of the 4 per cent. advance in rates; the reserve made that figure up to £200,604.

544. You dealt with it in a different way to the Midland Company—I think it was—who included their amounts deducted in Outstanding Traffic Accounts?—They deducted it from Outstanding Traffic Accounts. There was so many million pounds in the Outstanding Traffic Accounts, and they said, "Some part of that we are not likely to get, namely, the amount that we have set aside for the advance in rates," and therefore they deducted it from these Outstanding Traffic Accounts. I still maintain that mine was the correct way.

Mr. Jepson: Naturally you would think that.

545. Mr. Locket: I suppose that, so far as the traders were concerned, the effect was precisely the same?—Yes.

546. Mr. Jepson: You get the same result, but you do not deal with bad debts in the same way?—You deduct it from Outstanding Traffic Accounts as a rule.

547. You did take off your bad debts?—Yes; but obviously you could not leave that money in the accounts for that year, seeing that there was a dispute as to the legality of the increase. If you had included it you might have distributed the money to your shareholders, and if the claim eventuated, and the charges were held not to be legal, you would have nothing out of which to pay it.

548. I am not an accountant, and I do not profess to understand railway accounts at all, but what misled me was the heading "Gross Receipts," where your first figure is shown. One imagined that those were the gross receipts obtained for the traffic. You say that they are not the gross receipts obtained for the traffic?—No, they are not.

549. You say that they are not the gross receipts obtained for the traffic, because, in your case at any rate, one item is subject to a deduction of £75,000, and another item is subject to a deduction of £87?—Yes. If you get £1 of revenue, and you think there is a liability in respect of that, either for bad debts or any other claim, you must make provision for that liability in making up your accounts, even though you may have got your £1.

550. I quite agree that provision has to be made, but it did not appear to me that it was made in the way in which it should have been made—I take it you say it should be on the other side?

551. Yes?—There is no provision in the accounts under the Act of 1911 for such a provision to be made on the debit side of No. 10 Account.

552. I think it would be clearer if you had done it on the other side, so that you would put in what you profess to put in, namely, the actual receipts from the traffic?—You would then see it on the face of the account, certainly.

553. Mr. Bruce Thomas: I think this was the first year in which you were producing accounts in the new form?—That is so.

Mr. Jepson: These accounts, as you will remember, Mr. Bruce Thomas, were made out on the lines of the Accounts Act of 1911, which again, I think, had been under consideration with the recommendations of the accountants of the railway companies.

Mr. Bruce Thomas: Yes, Sir.

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Mr. RALPH CORE.

[Continued.]

554. Now there is just one other adjustment you would have had to make, and that is in connection with the Penarth Harbour, Dock and Railway Company?—Yes, that is so.

555. That again was a non-working company, was it not?—Yes.

556. It was being worked by the Taff Vale Company?—Yes, by the Taff Vale Company.

557. Will you just shortly explain the adjustment that you have had to make in that case?—If you will turn to our book of accounts, page 202, in the second account, Account No. 9, "Revenue Account," of the Penarth Harbour, Dock and Railway Company, you will find that there is shown on the credit side the rent received from the Taff Vale Company, £40,676 plus £400 for management expenses, making a total of £41,076. Now if you will turn to the Taff Vale Company's accounts on page 90, you will see that in Account No. 9, the sixth item "Rent of and Guaranteed Interest on Leased and Worked Lines—Penarth Harbour, Dock and Railway: £50,968 9s. 6d." That differs from the amount brought in by the Penarth Company to the extent of £9,893. If you will turn to page 201, which is the previous page of the Penarth Company's account, you will see under Account No. 3, which is called "Capital raised by Debenture Stock," that there existed, on the 31st December, 1913, £77,510 of Debenture Stock at 3½ per cent., and £179,490 of Debenture Stock at 4 per cent.; and nothing is included in the revenue account for the interest on that Debenture Stock. That interest amounts to £9,893, and was undoubtedly received by the Penarth Company; but for some reason or another they did not include it in their accounts for that year.

558. They must have received it, must they not?—Yes.

559. Otherwise they could not have paid the dividend on their stocks?—Yes, I think that is so.

560. So that what it comes to is this, is it not, that in the accounts for 1913 of the Penarth Company, which was the worked line, the receipt of £9,893 from the Taff Vale Company is not shown?—That is so.

561. If you turn to the Taff Vale accounts you will find that that payment is shown in the Taff Vale accounts?—Yes; it is shown as £50,968.

562. It is included in that account, is it?—Yes, it is included in that account.

(After a short adjournment.)

Mr. JOHN QUIREY, recalled.

Cross-examined by SIR DOUGLAS HOGG.

572. You have before you, have you not, the page which is common to all the four books, the page which is headed, "Standard Revenues, Railways Act, 1921"?—I have.

573. And in that document you commence, do not you, by ascertaining what you describe as the aggregate net revenues in the year 1913 of the constituent and subsidiary companies?—Yes.

574. The purpose of that ascertainment is subject to the necessary additions under the sub-clauses, under 58 (1) (a), (b), and (c). The purpose of that ascertainment is to get a basis of comparison with the revenues in later years, revenues in the years in which you are seeking to charge?—It is to arrive at the Standard Revenue.

575. And the purpose of doing that is in order to arrive at a basis of comparison with the revenues in future years?—No doubt.

576. It is essential, therefore, is it not, that the basis upon which the 1913 calculation is made should be the same as that upon which the 1924 or 1925 or 1926 calculation is made, otherwise you are not comparing like with like?—The proper thing is to have the later year put in relation to the first; to 1913.

577. That is what I am suggesting. It is most essential, is it not, that the basis on which the two years which you are seeking to compare should be the same in respect of each year?—The basis should be the same.

563. The £9,893, of course, ought to have been shown in the Penarth Company's accounts in 1913?—Yes, it ought to have been shown.

564. And if you look at the Penarth's Company's accounts for some subsequent year you will find it?—Yes, you will find the debenture interest properly dealt with.

565. Mr. Locket: I suppose, as a matter of fact, the debenture interest was paid direct by the Taff Vale Company to the holders of the debenture stock?—I think so.

566. And it never passed through the books of the Penarth Company at all?—Not in 1913; subsequently it did.

567. Therefore the total amount ought to be included in the Taff Vale Company's accounts?—Yes, it was, and it should be included in the other account.

568. No doubt it should have been included on both sides?—Yes, on both sides.

569. Mr. Bruce Thomas: Again, one must bear in mind that this was the first year of the new accounts?—Yes.

570. And it may be that they felt some difficulty about it, and were not quite sure as to how they were to deal with that sum?—Yes, I expect that was it.

571. Mr. Locket: Where does that adjustment appear?—I have treated it here in the net income of the Penarth Extension Company. I have put in the true figure there.

Mr. Bruce Thomas: I was going to pass on now to the question of non-cancelled stocks in the Great Western Company. That will take some little time.

President: Do you suggest that we might adjourn now?

Mr. Bruce Thomas: I thought that this might be a convenient moment at which to adjourn.

President: Very well, we will adjourn now.

Mr. Clauson: I see that my learned friend Sir Douglas Hogg is here now, and I think it would probably be convenient that we should take the cross-examination of Mr. Quirey at 2 o'clock.

Sir Douglas Hogg: If that is convenient to the Tribunal it is convenient to me.

President: It will be quite convenient to us if it suits Sir Douglas.

Sir Douglas Hogg: If you please, Sir.

578. I felt sure you would agree with me. In order to arrive at the figure which you give as the aggregate net revenue you have taken, subject to certain adjustments which I shall have to ask you about presently, the figure shown in Account No. 8 of the 1913 published accounts?—Yes.

579. And we are agreed that there is nothing in the Act of Parliament which refers to those published accounts at all?—I understand that is so.

580. And there is nothing in the published accounts which uses the expression "net revenue"?—Yes.

581. The nearest expression we can find to it is "net income," which you have treated as meaning something different?—No, I do not think so.

582. Just look. Have not you deducted £5,823,000 from the net income in order to arrive at the net revenue?—Yes.

583. Then, obviously, you have treated them as something different?—I agree; I beg your pardon.

584. I am not really dealing with very contentious matters. Let us see how far we are in agreement. In arriving at the net income in 1913 the different companies appropriated before they got at their net income certain monies out of their accounts to depreciation and to reserves?—Yes, for renewal and other reserves.

585. And I think it is the fact, is it not, that each of the principal railway companies, at any rate—I daresay all the railway companies—had in their



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Mr. JOHN QUIREY.

[Continued.]

balance sheets certain accounts which they called depreciation accounts?—Yes.

586. If we look, for instance, at the North Western—and I only take that because it comes first—in this blue book, you have it there, I think, on the debtor side of the general balance?—Yes.

587. Depreciation funds, which are, in the case of the North Western, divided up into railway steamboats, including insurance, other businesses, and then there is an item for general reserve?—Yes.

588. And that, I may take it, would be characteristic of most of the railways, at any rate, in 1913?—Yes; the large companies, of course.

589. And, I suppose, that an allocation for depreciation is common to all the four amalgamated companies nowadays; each of them has a depreciation account, has it not?—They will have a depreciation account, a continuation of the old.

590. With this difference, of course, that you told me in 1913 some of the constituent or subsidiary companies do not get depreciation funds, whereas now the depreciation account is spread over the whole of the railways constituting the amalgamated companies?—Some of the small companies may not have had any funds.

591. It is obvious, is it not—let us see if we can agree about this—that since the depreciation allowance in each year is deducted before you arrive at the net income, that you can materially affect the figure which will be shown as the net income according to the amount you appropriate for depreciation?—That is so, provided all other circumstances are alike.

592. For the moment I think you need have no proviso. It is obvious, is it not, that since the depreciation is deducted before you get at the net income you can materially alter the net income shown in the balance sheet by altering the allocation to depreciation?—Yes.

593. And if in fact you calculate your depreciation on a wholly different scale in 1924 or 1925 from that which you adopted in 1913 the result would be that you would not be comparing like with like when you compared the two net incomes?—I do not think so, because the circumstances may be quite different.

594. That was assumed, that the circumstances are quite different. Assume that you may make a depreciation calculated on quite a different basis in 1924 or 1925 from that which you adopted in 1913, it would obviously result, would it not, that the net income so arrived at in the two respective years would not be comparable?—Unless there was a corresponding reduction in other items of expenditure, such as repairs.

595. Quite?—Maintenance, of course, must be taken as a whole.

596. That is another matter. I am dealing now with depreciation?—Depreciation is part of the maintenance charge.

597. The depreciation fund appears in your balance sheet as one of the debtor items which is represented by assets on the other side?—Yes.

598. Therefore as an existing fund. Have you had the curiosity since you have done these calculations just to see what the total depreciation fund of all the companies was in 1913?—I think it is contained in the Ministry of Transport Blue Book.

599. I am not asking you?—I have not the figure.

600. Perhaps you will be able to help me. I am not asking you how much was appropriated in 1913 for depreciation for the moment; I am asking you how much the total depreciation fund amounted to, which, of course, represents the accumulation of half a century?—Previous years.

601. Would this be about right? Is the total depreciation fund of all the railways accumulated from the time that they commenced work down to the end of 1913 in respect of railway working £8,371,317?—I am not able to check the figure. I only have the Ministry of Transport Railway Returns, which show reserves and depreciation funds in one figure.

602. I see. What page are you looking at?—Page 16 of the Ministry of Transport Railway Returns for the year 1922.

603. Have you ascertained at all what the figure had become by 1922?—No.

604. Would it surprise you if it had grown from £8,371,317 to £53,076,518 in the nine years?—No.

605. That is to say, that during those nine years they appropriated to railway depreciation nearly £45,000,000 as against a total appropriation of £8,000,000 in the 50 years preceding?—The difference is explained to an extent by this, that during the period of Government control the railways were not able to undertake renewal work, and as renewal work was not carried out the amount was placed to the credit of the depreciation fund.

606. If that be the explanation, let us take?—That is part of it.

607. Let us take the period when the Government control had ceased to operate; that is to say, in 1922; control came to an end on August 15th, 1921, as we know. Is the appropriation for the year 1923 £10,658,165?—I do not know. I have not got the figure; I have not applied my mind to the 1923 accounts at all.

608. You appreciate, do not you, that if the standard revenue is once fixed, then it is fixed for all time, as the Lord Advocate pointed out?—Yes.

609. Therefore, it is very important to be quite sure that we are getting a right figure, because we can never alter it, whatever mistakes may afterwards emerge?—It is necessary to find out that the working expenses of 1913 were adequate.

610. What I am suggesting to you is that whereas in the 70 years before 1913 the total appropriations to railway depreciation had been £8,000,000 odd, in the one year, 1923, the appropriation for that year alone was £10,000,000 odd?—The £8,000,000 was not the total appropriation to dividend of 1913; it was the amount remaining unspent of the depreciation fund; quite a different matter.

611. What do you say was appropriated in 1913?—I do not know.

612. That would be quite easily ascertained, would it not?—It may be ascertained, but not from the face of the accounts.

613. The depreciation appropriation could not be ascertained from the face of the accounts?—No.

614. Why not?—The balance of the amount set aside for the depreciation or renewal can be ascertained from the face of certain of the accounts, certain of the abstracts, but it is not shown in all abstracts.

615. You are asking us to take these accounts as conclusively correct, so that I just want to understand them. You say the figures which are given as being the appropriations for depreciation in the accounts are not the figures which were actually so appropriated?—No, the balance unspent.

616. Then these accounts do not show the appropriations to depreciation in those years?—Not the full sum. You see, the railway companies go upon the basis of a provision for renewals, and therefore the annual provision for renewal in so far as the amount is spent will appear in the body of the abstract as complete renewals *plus* certain other charges, and if the amount spent is in excess of the provision the transfer at the foot of the abstract will be a credit to the abstract. If the amount of provision has not been wholly spent the amount is transferred to the depreciation fund and an addition to the abstract.

617. These accounts then are not correct when they speak of so much allowance for depreciation and insurance, for instance. That would be wrong?—It is the balance of depreciation provided and not spent. In no place can you find the total amount of the renewal provision.

618. So that it is quite impossible by looking at the account to see whether the total amount of the provision for depreciation in 1913 was adequate or excessive?—Not without an examination of the books of the company.



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[Continued.]

619. And the figures which the company publish as showing the depreciation and insurance are not in fact anything of the kind, but are merely a balance left over unspent?—The balance of the depreciation fund unspent.

*Lord Advocate:* I think if you look at the entries you will see it is put as a transfer.

620. *Sir Douglas Hogg:* Not all. On page 11 there are some so expressed, and some differently expressed. I do not know whether the different expressions mean the same thing in railway accounts; that I will find out from the witness. The expression "Add to depreciation fund" appears, for instance, on page 8 of Abstract A. If you will be so good as to look at the bottom of Abstract A you will see "Add transfer to depreciation fund" which in my ignorance I assumed meant £50,032 13s. 5d. had been transferred to depreciation account in that year, but I gather from the witness that that is not so?—The steamboats account is the only one in which you will see the total depreciation charged, and even there it is mixed up with insurance.

621. May I take it that in the case of the steamboats you do get the total of depreciation?—Yes, plus insurance.

622. Let us compare them, because although the figures are not quite so striking as the others they are quite sufficiently striking. Is the total depreciation which was allowed since railways began down to the end of 1913 in all the companies, £3,382,480?—No; that is not the total depreciation that has been provided for steamships since railways began.

623. Is that the total which is shown in their accounts as being the sum in all the railways?—It may be; but that, of course, is again the balance unspent.

624. I thought you told me that with regard to steamboats it was different and you did find the actual appropriation?—In the Account No. 12, yes; in the balance sheet you will find that the balance sheet is the balance of the depreciation fund.

625. You mean that the account in No. 12, the transfer of £46,666 13s. 4d. at page 11—is that, or is not that, the total depreciation, or is that also only an insurance, or only a balance?—No, that is the total charge for that year.

626. That amount was charged, and therefore presumably appears somewhere in the accounts?—It will be included in the amount of depreciation on steamships; but there may have been in that year a steamship renewed, and the total sum charged against the fund would not appear in any of the accounts.

627. You mean that out of the depreciation fund monies may have been taken; is that it?—No, that a sum may have been charged against it.

628. That is to say, the money for the purchase of a new steamboat may have been taken out of the depreciation fund?—Yes.

629. Let us see how the figures run for the moment. Had the £3,382,000 by 1922 become £7,119,965?—I have no doubt.

630. And in 1923 had it become £8,038,452?—Possibly; no renewals were charged possibly in that year.

631. Presumably there were none?—There were not, quite possibly.

632. Do I take it that these renewals of steamboats, at any rate, are not charged to capital account, but are charged to depreciation fund?—That is the practice of the railways, seeing the accounts are kept on the double account system.

633. Looking at those figures, can you say whether the depreciation allowances were not very much larger in 1923 than they were in 1922?—Possibly they were; but I say again—

634. Have not you looked to see; take your own company which you know something about?—As a matter of fact, I did not make the entries this last year.

635. When did you last make the entries?—I made the entries in the Midland Company in 1922.

636. The Midland Company only. Just assume, for a moment, if you will, that in 1922 and in 1923 the appropriations were infinitely larger than they were in 1913 the effect would be, would it not, that 1913 would show a much larger net income on the same gross revenue?—The 1923 provision should have regard to the liability of that year for renewals, and therefore the amount would be larger than in 1913, because since 1913 there has been an increase in cost.

637. I quite appreciate that, but I want you still to try and answer my question. If the 1923 calculations were on a much more generous scale than those in 1913—just assume that—the result would be, would it not, that 1913 would show a much larger net income than 1923 out of the same gross revenue?—No, not out of the same gross revenue.

638. Why not?—Because we have obtained increases of rates since 1913 to meet increased costs out of the same gross revenue.

639. I wanted you to assume that the provision was much more generous in 1923 than it was in 1913. Is follows, as a matter of accountancy, that if you had the same gross revenue in the two years the 1913 net income would appear much larger than the 1923. It is only a matter of arithmetic?—That would follow.

640. You appreciate, do not you, that that would vitally affect the traders when they were asked to take 1913 net income as a starting point and compare it with 1923, or 1924, or 1925?—No, I do not agree.

641. Do not you?—No, because I say it is not a question of depreciation alone. You have got to deal with the maintenance charge as a whole, not merely what was set aside for renewals, but what was spent upon maintenance repairs and partial renewals as well, and you have got to find, I think, if the expenditure in 1913 in the then circumstances was sufficient for the maintenance and renewal of the undertaking.

642. I agree with you that it might happen that although the provision for depreciation was much less generous in 1913 than in 1923 the provision for maintenance was much more generous?—I do not agree.

643. One might balance the other?—I do not agree that it was more generous.

644. On a more lavish scale?—It was light.

645. On a very much more generous scale?—It had regard to the liability for the renewals that ought to be undertaken in the year. If there had been no depreciation charge, no renewal charge, and the company had executed the necessary number of renewals then the outlay would have been practically the same as the provision.

646. If the company had spent as much as it had set aside then there would have been no balance; that I understand?—No; if the company had executed the necessary amount of average repairs the charge for the renewals executed should be about equal to the provision made.

647. When you say "the necessary amount of average renewals," do you say that the necessary amount of average renewals was calculated on the same basis, or the same figure of life, and so out, in 1913 as in 1923?—Yes, so far as I know.

648. But do you know?—I know that in some instances the life has been lengthened, and in other cases I think it has been shortened.

649. You observe, do not you—assume for the moment that the result of those alterations is that the provision is more generous in 1923 than in 1913; that is so—that the traders would be vitally interested in that fact being ascertained?—Of course they are, but I do not believe there has been a radical change in the method of arriving at the provision.

650. That can only be done by allowing the figures to be investigated?—Of course.

651. The same thing—I do not want to keep it up unnecessarily—is true with regard to the other depreciation for other businesses. I think the total of the funds in 1913 was £807,000, the total in 1923 was £2,509,964, and the total in 1923 was £5,377,254?

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[Continued.]

—Here, again, there might be no alteration in the basis of calculating the depreciation, but merely regard had to the current costs.

652. So much for depreciation fund. There was another item which interested me. You told us that certain adjustments which you were seeking to make—there was particularly the 4 per cent.—Yes.

653. And you told us so far as your own companies were concerned that in 1913 it disappeared out of the balance sheet accounts altogether, and was really a hidden reserve. That is right, is it not?—Yes, it was a reserve not shown on the face of the balance sheet.

654. That is what I call a hidden reserve; it is nothing discreditable; all banks, I believe, have them. Were there other hidden reserves similarly which are not shown on the face of the balance sheet in 1913?—There were others, I am certain.

655. Are there hidden reserves equally in 1923?—I am sure there are.

656. I feel sure there are, too. Are they very much larger now than they were in 1913?—I have no doubt they are.

657. Again we are agreed. Obviously if larger sums were taken to reserve before you arrived at the net income, because that is what happens when you get an appropriation, there would be a hidden reserve—?—Not always.

658. If I am wrong about that I should like to be put right. If there is appropriation to a reserve which is not shown in the balance sheet; that is to say, that the appropriation is effected by taking off some figure of receipt and not showing it, the result is that the net income is *pro tanto* diminished?—Yes; but one cause of the growth in the reserves not disclosed in the balance sheet is in fact the accumulation of the 4 per cent. increase suspense during the period of Government control. A great many companies did not bring that amount back into receipts and transfer it to reserve; they did it in a shorter way, they retained it in a reserve account.

659. I am not quite sure that I follow that. Do you mean that each year after 1913 they continued not to show the 4 per cent. or that until 1913 the 4 per cent. was kept?—?—The reserve in 1913 was for the purpose of Government compensation added back to the 1913 receipt and our 1913 net receipts to the line, and we received that amount year by year during control.

660. You received the 4 per cent., did you?—Yes; the 4 per cent. reserve of 1913 being the receipt of the year.

661. You got that from the Government, although it was not shown in your 1913 account?—It was not shown on the face of the account; it was an earning of 1913, as we afterwards ascertained.

662. I am not arguing it for the moment; I only want to understand it. Then you mean that each year after 1913—for instance, in the case of the North Western there was £70,000 in 1913.

Mr. Jepson: That was the Midland.

663. Sir Douglas Hogg: I am much obliged. In the case of the Midland there was £70,000 hidden reserve in 1913 from this 4 per cent.—?—Yes.

664. In 1914, 1915, 1916, 1917, and so on, there would be £70,000 each year?—Yes.

Mr. Jepson: That is for a half-year.

665. Sir Douglas Hogg: They only got £70,000. Is that right?—We only got the £70,000 because that was the amount set aside. The Government got the January to June receipt, although as a fact, as you know, in 1913 the companies bore the whole of the expenditure that that 4 per cent. was intended to cover.

666. Mr. Locket: In subsequent years did it come into your account as part of your net revenue?—It was not carried into our accounts subsequently as net revenue; it was received as Government compensation, but not brought into the No. 8 Account.

667. It was reserved in the same way as the first £70,000?—Yes.

668. There was an accumulative figure of £70,000 for five years, was there?—Seven years *plus* 1913.

669. So that the Midland figure would be £350,000?—About £560,000; as a matter of fact; it was about £600,000 because we also had the January to June, 1914.

670. Sir Douglas Hogg: I follow what was done with regard to the £70,000. Each year, you say, the amount you received from the Government and shown as a credit in the balance sheet was £70,000 less than the amount which the Government really paid. That is right, is it not?—The amount brought into Account No. 8 as compensation payable by the Government was £70,000 less than the amount received.

671. That is right; and that, of course, would be piling up as a hidden reserve all the time. Were there other hidden reserves created by 1923?—The only other one that I am acquainted with in the case of the London, Midland and Scottish is the sum which we have appropriated out of the Government compensation under Section 11 of the Act of 1921; a reserve we have made for contingencies.

672. How much?—I think it is about £3,000,000, or thereabouts.

673. Of course, the question of hidden reserves would again, in the two compared years, vitally affect the traders?—I do not think so.

674. Surely?—Unless it involved a charge to revenue.

675. Let me see. The effect of appropriating a sum in this way to hidden reserve is to make the apparent net income so much smaller than it otherwise would be?—Yes, certainly. The 1913 is less by the amount appropriated.

676. And if, in fact, instead of £70,000, £700,000 were appropriated, the result would be that the account would be £630,000 worse?—Yes.

677. So that, again, the amount of money appropriated in the way of hidden reserve is a vital factor for the traders to be able to ascertain?—Yes. They are entitled, of course, to know the charges against revenue, I take it; but they are protected, I take it, by the auditors' certificate.

Mr. Jepson: Are you affected more than for the year 1913 as regards the £70,000? Are you affected by the intermediate years?

Sir Douglas Hogg: No, but supposing, for instance, the year in respect of which estimates are given when proposing these charges, they say: We have to get a net income equal to the 1913 accounts.

Mr. Jepson: I do not gather from Mr. Quirey's answers to you that there would be any similar deduction to the £70,000 for the year 1924 or 1925, because the reason for making such a deduction no longer exists.

Sir Douglas Hogg: That is quite true; but I gather that they would no longer deduct the 4 per cent. (*To the Witness*): Or do you now credit it in your net revenue?

Witness: Yes.

Sir Douglas Hogg: I should imagine that any hidden reserves which are in the two years, unless they are the same, obviously will affect the comparison of the two years.

Mr. Jepson: There is this other point. The witness says he has got now this £500,000 or £600,000 as the accumulation of these hidden reserves during the war period; that is earning revenue in some way, or has been spent on capital account and is remunerative, and to that extent the net income account is depreciated.

Sir Douglas Hogg: Yes; assuming that it is not brought in as a capital expenditure and debited to your (1) (a) or (1) (b). I have not noticed any reference to charge under those headings.

Mr. Jepson: That has got to be developed, as to whether money could be provided out of those revenues and charges.

Sir Douglas Hogg: That is a very serious problem which the Tribunal will have to tell us about. I only wanted at the moment to get clearly, if I might,

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[Continued.]

that the way in which the 1913 figures are arrived at had any difference between the method adopted in 1913 and the method adopted in 1924. That is a vital question for the traders; not merely, as my learned friend at one time suggested, a sort of academic point. I do not want to argue it now; but the Tribunal will appreciate that, since we cannot change the standard revenue when it is once fixed, however much we find that it was calculated on a wrong basis, it is not true to say, You are all right. The year 1924 or 1925 gives what the figure is going to be. It may be that the 1924 or 1925 accounts are quite right; but if the 1913 figures, if we were only to look at them, were wrongly calculated, we should be debarred from going into them because the standard revenue is fixed. This is the only opportunity we have of investigation. *(To the Witness):*

678. I want to ask you one or two other questions about those adjustments. In fact, the effect of the adjustment is this, is it not, that there were certain sums which were not treated in 1913 as being net income because they were appropriated to a reserve, but which, in the light of after experience, you think ought to have been so treated?—Yes.

679. And therefore you say you want to alter the account, in the light of your later experience, by making such an adjustment from the appropriations to reserve as you think experience shows would have been right?—No; the amount was set aside for a specific reason, and it proved that the liability did not exist; and, as a fact, as you know, the Government compensation was based upon the 1913 receipts *plus* this reserve.

680. I do not want you to bother about the Government compensation; we are not, for the moment, concerned with that. I am only dealing with the 1913 net income.—Yes.

681. In fact you claim to alter the figure of net income shown in the 1913 accounts because an appropriation to reserve, which you thought was a prudent and proper thing in 1913, has turned out, in the light of subsequent experience, to have been unnecessary?—That is so.

682. Suppose, on the other hand, there were appropriations to reserve or to depreciation which after experience shows to have been necessary, which you did not make in 1913 because you were too sanguine as to the length of life of your line, do you think that those ought not similarly to be altered?—Again, I say that you have got to consider the total charge for the maintenance, not merely the renewal charge; you have got to ascertain whether the amount expended on maintenance is sufficient. The provision for renewals is, as a general rule, for complete renewals.

683. Do you know that in fact the Chairman of the Southern Railway, Sir Hugh Drummond, has himself stated publicly that the provision made was inadequate in 1913?—I do not know that. I have no doubt the Southern Railway Company's witness will be able to speak as to that.

684. Then I will not trouble you about it. I want now to ask you a question or two about your other adjustments, which are comparatively minor matters. You have omitted from the 1913 revenue so much of the receipts as represent investments which have since been cancelled owing to the amalgamation?—Yes.

685. You have not omitted investments which have not been cancelled but which are now represented by holdings of the company in its own shares?—They have been retained.

686. So long as the income on the new shares is the same as the income in 1913 was on the old shares, that, of course, would make no difference at all?—That is so.

687. If and so far as there was a difference in the yield, that would affect the comparison?—Either up or down; but it would be a small matter.

688. I agree, and that is why I am not going to take up much time with it. I now come to what I

think is the next item, and that is your deductions?—Yes.

689. Your deductions are in order to ascertain the net revenue which you assume for this purpose is something different from the net income?—We assume that the net revenue is the amount available out of the year's working for the remuneration of capital.

690. And that that is something different from the net income?—It is different from the net income as shown in those published accounts.

691. The net income, what is called in the Act of Parliament the net income, you assume means something different from what is called in the 1921 Act a "net revenue"?—Yes.

692. And you begin by deducting in each year the interest, rentals and other fixed charges with certain expenses such as loans on debenture stock?—Capital stocks and loans.

693. Again, I am not going to waste time over this. I am deliberately, Sir, choosing illustrations; I think that is what the Tribunal would want. The first item, interest on superannuation and other funds. You deduct the interest; that I think you explained this morning was the interest which was paid at a fixed rate by the company in respect of the superannuation fund which it held, which it invested in its shares, keeping the yield for itself?—Yes.

694. What funds are there besides superannuation fund?—Some pension funds.

695. Any other?—I do not know of any other.

696. Were they increased between 1913 and 1923?—Yes.

697. How much, roughly in the case of your own railway, the London, Midland and Scottish? I do not want precise figures; if you can give me approximate figures it will be quite sufficient for my purpose?—There was an increase in the London, Midland and Scottish between 1913 and 1922 from superannuation and other provident funds, of about £6,000,000.

698. An increase of nearly £7,000,000?—Yes.

699. Now, interest was paid by the companies, what at—5 per cent.?—4 per cent., generally.

700. So that that would represent a charge of about £280,000 a year?—That is to say, an increased charge.

701. So that the amount you deduct from the 1924 figure, for example, in respect of this item would be roughly £280,000 a year more than the amount you deducted in 1913?—And it would be counterbalanced by the increased earnings in general interest.

702. I am coming to that. First of all, that is the fact, is it not?—That is the fact regarding that.

703. Assume that you include the superannuation fund in the monies which you claim to provide for capital expenditure; do you follow?—Yes.

704. Which cover you?—Not as free reserves.

705. Never mind what that. Assume that you spent the £7,000,000 in capital improvements, capital expenditure since the last of January, 1913?—Yes.

706. You are claiming under 58 (1) (b) that 6 per cent. on that amount shall be added to the 1913 revenue in order to arrive at the standard revenue?—Yes, until such time as it would be necessary to raise capital.

707. Now the effect of that is this, is it not, that you first of all deduct from the net income—using the statutory expression—£280,000 more in 1923 than you had in 1913, and then you add to the net income of 1913 for the purpose of standard revenue £420,000 more than it was in 1913?—If the amount be used for capital expenditure.

708. I am assuming that for the moment. That means that the figure is put in twice over?—I admitted that this morning.

Mr. Jepson: This morning, under a rather close examination of this question, Mr. Quirey said that as regards the London, Midland and Scottish and the Southern Railways they provided all the



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money that was spent on capital account, beyond that which was raised capital, out of their free reserves. It is only with regard to the other two companies to the extent of about £600,000 each, if I remember rightly—£622,000 and £693,000 respectively—that the London and North Eastern and the Great Western actually encroached upon their earmarked funds.

709. *Sir Douglas Hogg:* I am much obliged. I have the table. I had not appreciated that the Witness had gone quite so far. (*To the Witness:*) Do you say that in fact the money spent on this capital expenditure was spent out of the free reserves and not out of the superannuation fund?—Yes.

710. Is there any means by which you earmark from which source it came? No; we have no means.

711. Why do you say that then?—I say we are entitled to apply the free reserves as capital provided for this purpose.

712. Although in fact you do not know whether you applied the free reserves, or whether you applied the superannuation fund?—I know that we applied moneys which existed in the company's hands, and as the increase in free reserves was a certain figure I say we are entitled to apply that as capital provided.

713. In fact you cannot say that the money you used was from free reserves or from the superannuation fund?—Of course we cannot mark the sovereigns.

714. They are not sovereigns in these days?—No. Treasury notes.

715. In fact, as far as two of the railways are concerned, as Mr. Jepson points out—the North Eastern and the Great Western—there was not enough money there unless you used some of the superannuation funds?—That is so; or the earmarked reserves, such as the depreciation fund.

716. I have been told that the figure you give us is the total increase in free reserves between 1913 and 1923; is that so?—The 31st December, 1923.

717. In fact I believe you have been good enough to give how much of the free reserves came from the Government compensation. Perhaps it would be convenient just to note that?—It is not there.

718. It is not printed there, but I am told you have given us the figure. I do not know if you have it before you. It might be useful to have it on the note?—I did not know the figure; I have not got it.

719. But it was furnished by you or by somebody on your behalf before this Inquiry?—Possibly.

720. I did not know if you had it before you. It might be useful to jot it down.—I have not got the figure, but I could ascertain it.

721. Is this right: The North Eastern Railway, £6,500,000 from the Government compensation, and the balance £1,347,245 from other sources?—That is probably right.

722. London, Midland and Scottish, £8,836,493 from Government compensation and £7,392,000 from other sources?—Possibly that is right.

723. The Great Western £2,350,000 from Government compensation and £2,851,200 from other sources; and the Southern Railway £1,250,000 from Government compensation and £936,207 from other sources?—I have no doubt those figures are correct.

724. It is perhaps convenient to have them as we have got the table?—Yes.

725. The figure you give us—the total—is of course the increase in the free reserves. It is not the actual free reserves; it is the increase between those two dates?—That is so, and of course the Government compensation there dealt with is the amount standing as available for distribution. It is not the amount appropriated to any other funds. It is not the total amount received under the Act of 1921.

726. No. The total amount received under the Act of 1921 was very much larger, was it not; it was £60,000,000?—Part of it has been spent already, and part of it has been appropriated to other funds.

727. And a good deal of that has disappeared into reserves of various kinds, has it not?—Yes.

728. The great bulk of it was given because of deferred maintenance, was it not?—I do not know.

729. Do you mean that there has been no ascertainment of how the £60,000,000 is made up?—So far as I know, Sir William Plender was the negotiator. I do not know that anybody exists who knows how the £60,000,000 was made up.

730. Sir William Plender is as good a witness as anybody could wish, and no doubt he will be able to tell us about it?—Yes, he will be here.

731. In addition to the £60,000,000 there was another £40,000,000 given, was there not, for compensation?—No, not given. There was £40,000,000 payable under agreement. I do not know about that £40,000,000; it appears in the Committee's Report. At any rate, it is payment for the arrears of maintenance, and so far as the arrears of maintenance are not overtaken the amount stands at present.

732. £40,000,000 for deferred maintenance and £60,000,000 for things which you do not quite know about, but which Sir William Plender can tell us about, which include a good deal of maintenance also?—Yes. A good deal of the £40,000,000 is now spent.

733. Is now spent?—Has been spent.

734. I think I can pass on now to the third item; that is to say, the capital. I have asked questions which I hope indicate my point with regard to the other. The third item is the claim under 58 (1) (a) of 5 per cent. upon the Government allowance?—Yes.

735. First of all can you tell me this: What check is there to show whether or not the amounts which are being debited under 58 (1) (b) have already been allowed by the Government under 58 (1) (a)?—A reconciliation statement of the capital expended since the 1st January, 1913, with the claim under (1) (a) and (1) (b) is now in course of being printed, and will be supplied.

736. You mean it is admitted—I only want to make sure that we understand it—that you have taken the total capital expenditure as shown in your No. 4 account, you have deducted from it so much as the Government allow 5 per cent. on, and you have said the balance is 58 (1) (b)?—Yes, that is practically it.

737. I do not quite know about this. When was it that the Government fixed the amounts on which they were allowing the 5 per cent.? Did they from time to time make additions to the different items and say: "We will allow 5 per cent. on this, and now another 5 per cent. on another £100,000," or how did they do it?—The first arrangement is contained in an agreement.

738. We are at cross purposes. I know quite well that they originally agreed to pay 4 per cent. on the capital expended since the 1st January, 1913, on above-the-line items, and that afterwards they allowed 5 per cent. on some items since May, 1919?—Yes. The 4 per cent. was not upon expenditure to January, 1913, but upon works brought into use since then.

739. Quite so. I suppose you submitted claims from time to time to the Government, did you?—Every year.

740. And did they allow them at once, or did they take time to discuss them with you?—A claim when first furnished by the company was investigated by the investigators of the Railway Accountants' Committee with whom was associated a representative of the Ministry of Transport. Then the matter was reported to the Accountants' Committee and, if passed by them, sent on to the Ministry of Transport.

741. So that the amount which is now allowed by the Government as being a proper debit under 58 (1) (a) is a very much larger amount than the amount which was so allowed on the 15th August, 1921, and large sums have been brought in since, I suppose?—The expenditure was incurred at the 15th August, 1921.

742. Necessarily; but the amount which the Government now recognised as a proper sum on which to pay 5 per cent. is much larger than the one they recognised on the 15th August, 1921?—On the 15th



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August, 1921, the capital expenditure shown in the claims then passed would be less than the claims arranged to-day.

743. By a very large sum, I suppose?—I do not know. I can tell you the capital sum included in claims not yet agreed with the Government.

744. Do you mean to-day or in August, 1921?—I mean to-day.

745. I am speaking of nearly three years ago?—I cannot give you that.

746. At any rate, what you have got in No. 3 is the 5 per cent. on the capital expenditure which is claimed by the company as coming under 58 (1) (a), and has not yet been disallowed by the Government, is that right?—Not yet agreed with the Government.

747. Not yet disallowed by the Government?—Or disallowed. It is the amount of capital expenditure incurred to the 15th August, 1921.

748. You might tell me this also. I rather gather from something which I am told you told us this morning that in some cases the Government allowed interest on capital expenditure which was not incurred by the actual company to which the interest was paid?—There is one case—the Fishguard Company.

749. Was there not another case besides that?—I do not recollect any other case.

750. At any rate, there was that one?—There was that one. Of course, I do not know the facts relating to that.

751. No; we shall get those from someone else?—Yes.

752. I suppose that when these accounts were gone through between your accountants and the Government accountants and the officer of the Ministry of Transport in the way you have described, some items were cut out by the Government for a variety of reasons—some that they were not capital expenditure, some that they ought not to have been incurred, and so forth?—I do not remember any being struck out of the capital expenditure claim because they were not capital expenditure.

753. About how much has been disallowed by the Government of your claims?—I think remarkably little has been disallowed as far as I know.

754. You are very fortunate, but how much?—I think in the total very little has been disallowed. The disputes we had between the companies and the Accountants' Committee very often were of this nature: There might be a large work being brought into use in sections. The difficulty of fixing the amount of outlay upon the section brought into use used to cause us some trouble, but if we reduced the amount claimed upon the section brought into use the balance had to go on to the next section as it was brought into use. I do not recollect, however, any disallowed because they were not capital expenditure.

755. You think that, in effect, whatever the company claimed the Government paid, is that it?—No.

756. It looked rather like it, but I do not know?—No, I do not suggest that.

757. You think there were some items which the Government did disallow?—There were some disallowed.

758. Or withdrawn; of course, I treat them as the same. About how much is the difference between the amounts the companies have claimed from the Government and the amounts you now say are included in the 5 per cent. claim?—There is not included in our 58 (1) (a) claim any item disallowed by the Government.

759. No; but about how much difference is there between the capital sum you claim under 58 (1) (a) and the amount of the claims submitted to the Government as items which ought to be remunerated by 4 per cent. or 5 per cent.?—The additional capital expenditure in claims not yet agreed by the Government amounts to £5,900,000.

760. But then, in addition to that, there are some sums which have either been disallowed definitely

or withdrawn?—There may have been something of that kind.

761. How much did they come to added on to the £5,900,000?—I do not know.

762. Mr. Jepson: I thought you said just now that you did remember a case of a claim under the 4 and 5 per cent. allowance from the Government: being disallowed?—Not being disallowed, because it was not a capital transaction.

763. But when Sir Douglas went beyond that and tried to get particulars of any, I understood you to say you could not remember any claims, such as would come under (a), being disallowed by the Government?—I think the items that were disallowed were largely those that had not been approved by the Ministry, but claimed.

764. That is after 1919?—Yes; but I do not know the facts relating to that.

765. Sir Douglas Hogg: I gather the basis on which you compiled this account is that if the Government struck anything out of 58 (1) (a) for any reason you must therefore get it allowed under 58 (1) (b)?—If it be capital expenditure.

766. Is there anything you have put in 58 (1) (b) that the Government have disallowed under 58 (1) (a)?—I do not think so.

767. There cannot be if your statement is correct as to how you got the 58 (1) (b), because it was the test you gave us, you know, that you took your total figures shown in your No. 4 account and if you added them together then you got the same amount as your (1) (a) and (1) (b) totals?—That is so, practically.

Mr. Jepson: I think there must be some misunderstanding, because the effect of Mr. Quirey's evidence on my mind is this: The only things disallowed by the Government were items of capital expenditure, which had not been previously approved by the Minister of Transport since 1919, and then naturally they came out because they had not been approved by the Minister of Transport. Mr. Quirey has told us before that those amounts capital expenditure would properly come in now under (b).

768. Sir Douglas Hogg: I appreciate that. (P's the Witness): Is that so, Mr. Quirey, that there is nothing the Government have ever disallowed, except some items on grounds that they were not approved, since May, 1919?—That is all my knowledge. I only became a member of the Railway Accountants' Committee in 1920.

769. Then you do not know what happened before 1920?—Not what happened before 1920, because I was not a member of the Accountants' Committee.

770. Then you do not know how much may have been disallowed or the reasons?—That is so.

771. Then whatever has been disallowed, and whatever the reasons, it is stuck in under 58 (1) (b)?—Yes. I assume that it is proper capital expenditure.

772. Whatever you assume, that is what you have done. You have put it in under 58 (1) (b), whatever the reason was?—Yes.

773. A number of these things in your own accounts, for instance, obviously are above-the-line items, are they not?—Yes.

774. We have not got the dates of them all. They are in alphabetical order, I think, are they not, under each railway?—Yes.

775. I am not going through them, because that is not what I desire to do to-day; but I see if one takes the London and North Western Railway on page 6, and looks at the first few items, almost all of them would be above-the-line items?—That is so, and they would be the outlay of the London and North Western Company from the 16th August, 1921, to the 31st December, 1922.

776. Some of them would be that, and others of them would be items which would be incurred before August, 1921, but which the Government had disallowed under 58 (1) (a)?—That may be, but I do not know. If, however, there were any disallowed, then that is where they would be.

777. At some period I suppose you will be able to give us some little detail as to when this capital

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expenditure occurred. There is no date here at all?—It would be a very difficult matter.

778. It is very difficult to check it to see whether it comes within the statute or not until we know something about the date when it was incurred. You were able to do it quite easily with Schedule "E"—the one referring to 53 (1) (c)—and I imagine you have only to look at your books to see the dates?—No. We have generally, and almost wholly, to get a certificate from the Engineer or other officer concerned as to the date when the work was brought into use.

779. Do not you get such certificate always in the ordinary course?—No; we get the statement of the expenditure incurred upon the ordered work.

780. At any rate, you have details of when the expenditure was incurred?—Yes.

781. We have not that here?—That can be ascertained of course from the books.

782. That is what I was asking. You could furnish that quite easily?—I think that is what was being done by the accountants representing the traders who examined our books.

783. I cannot ask you usefully about those items without knowing which of them were before August, 1921, and which were afterwards. Take, for instance, the Euston and Watford item; is that before August, 1921?—A portion of it was before August, 1921. There was part of the Euston outlay in 53 (1) (a).

784. And the London Electric Railway. Was that after August, 1921?—No; that would not fall within 53 (1) (a).

785. You mean as being an advance?—Yes, that is right.

786. I would like to know about that. It is nearly £1,000,000. Is that a loan you made to that railway, or what is it?—It is a loan to the Underground Company in connection with our through working—the Bakerloo to Watford.

787. I just want to follow it. You mean that there is a company called the London Electric Company, Limited; is that right?—The London Electric Railway.

788. And you lent it some money?—Yes.

789. And they pay you interest, I suppose, on it?—Yes.

790. How much interest?—4 per cent.

791. And you have included as capital expenditure incurred the amounts of loans you have made to other railway companies at 4 per cent. per annum?—Yes. We claim under 53 (1) (b) for the capital raised and provided to make that loan.

792. Mr. Jepson: That is statutorily authorised, is it not?—Yes; there is a special Act.

793. Sir Douglas Hogg: You mean you were authorised to lend it?—We were authorised to lend it.

794. What you did was, I suppose, you paid the money over to the London Electric Railway on security?—I have no doubt there was security.

795. They covenanted to pay you 4 per cent. per annum for the loan?—Yes. Of course the reason for making that advance was not merely to get 4 per cent. upon it; there were traffic purposes involved.

796. I have no doubt you had very good reason for making the bargain. Is it lent for a term of years, or when are you going to get that back?—I do not know. I did not look it up. I was not concerned with the advance.

797. You have not at present, have you, Mr. Quirey, furnished to the traders, or to anybody on their behalf, details of the expenditure which you include in 53 (1) (a)?—No; but of course the final figure in 53 (1) (a) will be a figure certified by the Minister of Transport, I take it.

798. Quite; but it will not show what it covers?—No, it will not. But duplication could not arise under the form that I suggest.

799. You mean duplication could not arise for the reason that the sum of (a) and (b) make the total of your capital account; that is the way you put it?—That is right.

800. Your reference to the London Electric Railway leads me to ask you this—although it is a little

out of order, perhaps. You are getting 4 per cent. on that?—That is right.

801. And 4 per cent. as long as it continues to be lent, I suppose?—Quite so.

802. You are asking that the traders shall pay 6 per cent.?—Yes; we claim 6 per cent., not upon the advance but upon the capital raised or provided to make that advance.

803. That is to say, you are lending money at 4 per cent., but you do not know what it costs you to raise it, because it may have been provided out of anything?—It may cost us eventually 6 per cent. to raise it.

804. Or it may cost only 4 per cent.?—But the return to the company is not merely the interest on the advance, but the traffic considerations that induced us to make the advance.

805. You mean you thought it would pay your enterprise as a whole to make a loan at 4 per cent.?—Yes, because of the through connections which we have with the London Electric Company in connection with our Watford service.

806. What is the average rate of remuneration for railway capital in 1922 or 1923? I dare say it is in the Ministry's book?—I have 1922.

807. Give us the latest you have?—The return is not worked out on the capital expenditure, but it will be seen at page 14 of the Ministry of Transport Railway Return for 1922.

808. What does it come to?—On the nominal capital 4·07; upon the issued capital 4·74. It is on page 14 for 1922: Totals for Great Britain.

809. I thought the total return was 4·62?—That is the total receipts on capital issued. That would include premiums, less discount.

810. That is to say, the actual return which railway companies got on the capital which they have issued was in 1922, 4·62 per cent.?—4·62. The 1922 income of course includes the unfructified element.

811. Then let us try the 1913 figure. Is that more or less?—It is less.

812. What was it in 1913?—4·17.

813. As compared with the 6 with which you are asking to debit the traders?—The 4·17 is the average rate.

814. That is to say, if a railway company was asked in 1913 what was the average rate which its capital was actually bringing in, the answer would be 4·17 per cent.?—4·17 on the receipts from capital issued.

815. If it was asked in 1922 what return it got on capital issued in that year the answer would be 4·62?—Not issued in that year.

816. The total capital issued up to that year?—Yes, up to that year.

817. The total capital invested?—Yes.

818. 4·62?—4·62.

819. The amount you ask that the traders shall pay is 6 per cent.?—Yes, because it is based on present-day conditions.

820. Can you give me the 1923 figures?—I do not think that that has any connection with what we are asking—6 per cent. We are asking 6 per cent. because, in our opinion, that is the rate at which we should now raise capital on the average.

Sir Douglas Hogg: My learned friend the Solicitor-General has very kindly handed me what I had not got, namely, a copy of the 1923 figures. I think they are provisional figures. I see it is a preliminary statement and I see the figure for 1923 is 4·4, so that that is less than 1922.

Mr. Jepson: That is the return on capital.

821. Sir Douglas Hogg: That is the return on capital which has lately been realised by railway companies. In 1913 they were realising 4·17; in 1922, 4·62; and in 1923, 4·4. (To the Witness): I notice that when you were calculating out your claim under 53 (1) (c) on your 15-year formula, which I shall have to ask you about later on, the figure which you took as the ultimate figure which the capital might be expected to realise when it was fully remunerative, was 5 per cent.?—Capital expenditure

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of the nature included in 58 (1) (c)—not all capital expenditure.

822. That is right. That is capital expenditure which did not become remunerative at once but which enhanced the value of the undertaking?—Yes.

823. We need not trouble about capital which does not enhance the value of the undertaking because that is not in 58 (1) (b).—Neither are small works.

824. You mean that there are some less than £25,000?—Yes.

825. Do you find that the small works bring you in a better return than the big ones?—No. In addition to that there are other items of capital expenditure—Parliamentary expenditure and law charges.

826. Do you regard them as more remunerative?—No; but they tend to bring down the 5 per cent.

827. That is what I should have thought. They bring it down to 4·4, or something of that kind?—Of course, the 4·4 is only the amount of the 1923 net receipts.

828. Quite right.—There were in 1923 works that were not fully remunerative. We took the figure of 5 per cent. from Sir William Plender's evidence before the Railway Rates Advisory Committee in 1920.

829. You took the 5 per cent. as being the figure in 58 (1) (c). You have told me that 58 (1) (c) did not include some items like Parliamentary expenses and things of that kind which would tend to bring down the 5 per cent.?—Yes.

830. If you spread your net wider, the 5 per cent. would have to be somewhat lower?—Yes; if all capital expenditure were brought in possibly it would be somewhat lower, although Sir William Plender claimed in 1920 that 5 per cent. on the total capital expenditure was a fair return for a railway company.

831. At all events, the figure you are endeavouring to justify here is 5 per cent. at the end of 10 years in respect of the remunerative expenditure?—Yes.

832. And that compares with the 6 per cent. which you are asking the traders to pay under 58 (1) (b)?—The two are not similar.

833. That we shall have to argue?—The one is upon capital expenditure and the other is upon the cost of raising capital.

Mr. Jepson: The witness gave a qualification this morning. He said they had left out of their claim anything that they considered was immediately remunerative, such as rolling stock, steamships, buying out leaseholds, and any big expense of alterations of signalling which did not necessarily affect the remuneration of the company.

Sir Douglas Hogg: That is why I asked him whether those items were more remunerative than the ones he did include, and he said, "No, less."

Mr. Jepson: He got on to Parliamentary expenses, but he did mention rolling stock and steamships.

834. Sir Douglas Hogg: (To the Witness): Let us take the steamships and the rolling stock and the signalling. If you brought them in would you get a higher rate of remuneration or lower? Take 5 per cent. as what you expect to get on the things you did include in 58 (1) (c)? Do you expect to get a higher rate or a lower rate on the things you did not include?—We should certainly say, on the average, so far as rolling stock and the like are concerned, that we ought to get 5 per cent.

835. The same rate?—Yes—at least 5 per cent.

836. I wanted to ask you this also. Of course, the 5 per cent. is what you expect to get when the capital has become fully remunerative, to use the expression in the Act of Parliament?—That is so.

837. The great bulk of the expenditure on which you are asking the traders to allow 6 per cent. has not become fully remunerative, has it?—No; I should say that it has not.

838. So that it is not earning the 5 per cent. which you may ultimately look to earn?—No; but I think I said before that our claim is not based upon capital expenditure, but upon the cost of raising or providing capital.

839. We know that the capital actually invested in the undertaking is bringing in an average of something under 4½ per cent. We know that the actual capital invested you expect to bring in not more than 5 per cent. on the average as it becomes fully remunerative, and we know that during the first ten years of its life, according to you, the great bulk of the capital expenditure will not be fully remunerative?—That is so.

840. I think we can argue about the 6 per cent later on. Now I want to ask you some questions about this additional capital. I think you have told me what I wanted to know about the two companies where there was a decrease in the free reserves and the Government compensation—where they necessarily had to have recourse to other resources. But let us take the other companies where there is a surplus. First of all, is it true that it is quite impossible with regard to any capital expenditure incurred to say where the money came from which went into that expenditure?—Yes; you cannot identify capital expenditure with capital raised.

841. Now, just let us look at the section together, because I want to ask you some questions about it. I have no doubt you have studied it. I am not asking you as a lawyer, of course; I am only asking you as a very experienced railway accountant. Have you the section before?—Yes.

842. You have to get "such allowance as may be necessary to remunerate adequately any additional capital which may have been raised or provided in respect of expenditure on capital account incurred since the 1st January, 1913"?—Yes.

843. Do you make any distinction between those words and the expression "such allowance as may be necessary to remunerate adequately any additional expenditure on capital account incurred since the 1st day of January, 1913"?—Yes, I do.

844. What distinction do you draw?—I say that the allowance is to remunerate adequately additional capital raised or provided.

845. That is what I thought. Let us see. You say any expenditure on capital account incurred since the 1st day of January, 1913, is to be remunerated because it is to be assumed that it must have been raised or provided; is that right?—The expenditure has been met, and it must have been met by the raising or the providing of capital.

846. So that in your view—I only want to get it—and according to the figures you have submitted to the Tribunal, all expenditure on capital account incurred since the 1st of January, 1913, must be remunerated because it cannot have been spent without coming from somewhere, and therefore must have been raised or provided; is that right?—It must have been raised or provided.

847. Does it occur to you that possibly Parliament was anxious not to remunerate all expenditure on capital account, but that it was only additional capital which could be shown to have been raised or provided for capital expenditure?—I do not know what the intention of Parliament was.

848. That is quite a proper answer. The very expression "capital provided" occurs, does it not, in your own book. Look, for instance, at the London, Midland and Scottish book—that is the one you know best of all—on page 223. Have you the Portpatrick and Wigtownshire Joint Committee?—Yes.

849. Do you see No. 5: Detail of capital expenditure, None. No. 6: Estimate of further expenditure: £2,000. No. 7: Capital arrears and other assets available to meet further expenditure on capital account. Then there is this note: The London and North Western, Midland, Caledonian, and Glasgow and South Western, the owners of the undertaking, provide the capital required in equal proportions?—That is the usual practice in regard to joint lines.

850. So that in those cases the capital would be provided, to use your own expression, by the owners of the undertaking?—Yes.

851. As opposed to raising it from the public. It is what the big companies do from time to time when they want to get money?—Yes; but this capital for



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the Portpatrick might have been obtained by raising capital from the North Western.

852. But on the other hand it might not?—It might not.

853. If you look at page 16 of the small blue book "R.T. 3a," I think you will find a claim for capital which was provided by the four companies?—Capital expended by the Portpatrick Company.

854. That is to say, capital expenditure by the Portpatrick and Wigtownshire Joint Committee and provided in the proportions named by the four companies at page 226?—Quite so.

855. The same as other railway companies do?—Yes.

856. It is the usual way of doing it. Capital is provided in the case of joint lines by each of the companies who are joint owners?—Yes.

857. On the other hand, when the railway is not owned by other lines but is owned by the public, then if you want to raise further capital you have to go to the public for it and either issue debentures or issue shares, as the case may be?—Yes, and, as I said before, that money for the Portpatrick may have been raised by that means by the owning companies.

858. That is the one of the ways in which it may have been provided?—Yes.

859. Then, of course, the capital expenditure incurred would only be once met. You could not get it twice over?—That is so. We have not claimed in these documents for contributions of parent companies to joint lines. We have claimed the actual expenditure of the "J" joint lines.

860. You have claimed the actual expenditure on capital account provided by the different railway companies owning the joint lines in respect of these joint lines?—Yes; but those amounts provided for the joint lines would appear in the parent companies' account as capital expenditure under lines jointly owned or lines jointly leased, and for those transactions we have not included anything in Schedule "D."

861. Obviously you could not get it twice over?—That is what I wanted to make clear. We could not claim it twice over.

862. That would be impossible?—It is not impossible.

863. You are not claiming that as a wonderful act of self-denial, are you?—No, not at all.

864. Now let us see about these reserves, because my learned friend the Lord Advocate made some statements about them yesterday, and I want to ask you about them. The reserves are moneys which are set aside out of revenue to meet possible contingencies hereafter?—Or for the equalisation of dividends.

865. Yes, either to distribute hereafter, if thought fit, or to spend hereafter, if that is thought fit, or to invest?—Yes.

866. Until they are distributed, they are, of course, moneys belonging to the companies?—Yes.

867. If perchance they are expended on capital items, then I suppose the money is refunded. Is it put back to the reserves? It never disappears out of the reserves, does it?—The reserve fund stands untouched. The moneys are appropriated; the moneys are utilised.

868. That is right. It is not that they are appropriated, but the money is used. It is not raised from the public or provided by the public until the market is suitable, and then there is a public issue of debentures or share capital?—Yes, when there is a necessity for money to be obtained.

869. I follow. I felt sure that that was the way in which it was done, but I thought it would be better to clear it up, having regard to some things that were said yesterday. Until that capital is raised or provided by the public by some sort of issue, the position is that the company, having money in its hands, uses it for its ordinary purposes, some of which may be in the nature of capital expenditure?—Yes.

Mr. Jepson: Mr. Quirey told us this morning, Sir Douglas, taking the London, Midland and Scottish Railway, that the capital account was £23,000,000 overdrawn.

Sir Douglas Hogg: Is that to-day, Sir?

Mr. Jepson: Yes, to-day, it is £23,000,000 overdrawn.

Sir Douglas Hogg: I am much obliged, Sir.

870. That is to say, you have actually spent, according to your capital account, nearly £23,000,000 more than you have raised from the public?—Yes, more than we have raised.

871. In 1913 the capital account was already £15,000,000 overdrawn, was it not?—It was overdrawn; I will take the figure of £15,000,000 from you.

872. I was taking this document, which seems to show £15,073,000 overdrawn?—I have no doubt that that is right.

873. There is one other question that I ought to have asked you, I think, about your percentage figure, your 6 per cent. You work that out by hypothetically dividing your capital into thirds, one-third ordinary, one-third preference, and one-third debentures, and taking hypothetical figures for each. In the case of your own company, what have you issued since the end of the control in 1921?—Practically nothing.

874. So that you are not able to give us any actual figures?—No; all that is available for us, for the purpose of this calculation, is the market price of the day. We have not made issues.

875. I suppose that the directors, in determining which sort of capital they would issue, whether it should be preference shares or ordinary shares, or debentures, would have regard to the market conditions, and they would select that which was best in the interests of the company, having regard to the market conditions then prevailing?—Yes; and, of course, having regard also to the balance of the capital account, no doubt.

876. You mean having regard to your unexhausted borrowing powers and your nominal capital unissued?—Yes; our borrowing powers are small.

877. What?—Our borrowing powers amount to only about £3,000,000.

878. I suppose that from time to time you can get more when you want them?—We could get additional powers, of course.

879. Now I want to come to your 58 (1) (c), and to ask you one or two questions about that. First of all, are we agreed that the calculation that you have given is a purely arbitrary formula?—That is so.

880. You have taken every expenditure in which you have spent more than £25,000, except certain named categories of expenditure?—Yes. Of course, I have taken out certain works.

881. I say that you have ignored certain named categories. I think you mentioned Rolling-Stock and Parliamentary expenses as being two of them?—Yes, and Steam-boats and certain Stamp Duty charges, and that sort of thing. The claims to be made upon works, broadly speaking.

882. And you have not investigated, with regard to any of them, whether or not they had become fully remunerative, or whether or not they had enhanced the value of the undertaking?—As to the enhancement of the value of the undertaking, our General Manager will speak about it; I cannot.

883. Have you included them all except the named categories, such as Steamships, Rolling-Stock, and Parliamentary expenditure?—Yes, because we have gone upon an average. It was absolutely impossible to trace each individual work and to ascertain its earning and working expenses and net returns.

884. Therefore, it being impossible to ascertain whether a work had become fully remunerative or not, or when it would become fully remunerative, you have taken an arbitrary figure and worked upon that?—Yes.

885. If one were to go through it, no doubt there are a whole lot of items which you would probably

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agree with me have become fully remunerative long ago?—I have no doubt that you could pick out plenty, and it might be that I, on the other hand, might be able to pick out some that are not yet remunerative.

886. One hopes so; otherwise the whole thing would go. May I take it that a great number would have to go out? Take, for instance, the first item, "Broad Street, Extension of Goods Accommodation." That has long ago got into full work, has it not?—Yes, but the claim upon that is practically nil.

887. I agree that the claim is small, but that happens to be the first and the earliest in date. It has long ago got into full work, has it not?—There is no doubt that it has.

888. If you say that the claim upon that is small, let us turn to the next page and find some that are larger. The top one on the next page is getting old; it is December, 1903, and it is the widening of a line at Birkenhead;—that became fully remunerative many, many years ago, did it not?—I should not say that it became fully remunerative in 10 years—the widening of a line.

889. You would not like to say that it had not, would you?—I should be very loath to say that it had.

890. You would not like to say one way or the other?—That is exactly it.

891. Now look at the next one, "Camden New Warehouse."—Yes.

892. That is a warehouse for goods, is it not?—Yes.

893. It was chock-a-block full of goods within a year or two of its opening, was it not?—It may have been, but I do not know.

894. You have no reason to believe that it had not been in full use, and crammed with goods, for years before 1913?—I do not know. But we have taken these works and gone on an average. There may be others that are not fully remunerative.

895. We are just trying to test whether or not this is a fair thing to do. The Midland Railway Company was your own company. Now let us look at some bigger items in that. Look at page 27. Do you see the first item there?—Yes.

896. It is "Manchester New Hotel." That was opened in 1903?—Yes.

897. It was as fully remunerative, long before 1913, as it is ever likely to be, was it not?—We have had a progressive return from Manchester. I do not think it was fully remunerative in 1913.

898. You do not think it was?—No.

899. What was it earning in 1923?—I have not got the figures with me.

900. How did the year 1913 compare with 1923?—I mean as regard the extent to which it was used, not necessarily the profits, because they might vary?—Again, I do not know.

901. Obviously, those are very material facts in ascertaining it?—The particulars of it would be ascertained from the Hotels Department.

902. It is not worth while going through them all. It is common ground between us, is it not, that what you have done is to take every capital expenditure whatever, except certain specified items such as rolling-stock and steamships, and so on, and apply an arbitrary formula to all of them, regardless of whether they were remunerative or not, and regardless of whether they have enhanced the value of the undertaking or not?—Not regardless of the enhancement of the value of the undertaking.

903. What allowance have you made for that. Have you disallowed some, on the ground that they did not enhance the value of the undertaking?—No, because we consider that everything included in the list has enhanced the value of the undertaking.

904. Have you left anything out on the ground that it does not enhance the value of the undertaking?—Yes, we have left out the items that I have mentioned.

905. That is to say, steamships, rolling-stock, and Parliamentary expenses?—I do not count those as not enhancing the value of the undertaking; they become early remunerative.

906. Then you have not left out anything as not enhancing the value of the undertaking?—I have not left out anything, because I say that the works which the railway companies undertake are for the purpose of enhancing the value of the undertaking.

907. I am sure they are for the purpose of enhancing it, either directly or indirectly. There are golf courses, and things like that, in the claim?—Yes, attached to the company's hotels.

908. You assume that everything that the company spent has enhanced the value of the undertaking, and you assume that none of the works has become fully remunerative (with the exception of two or three named categories) within less than 15 years?—Yes, that is so. As regards enhancement, we think that is a reasonable assumption.

909. But you do not think it is a reasonable assumption with regard to becoming fully remunerative; in fact, you know it is not a reasonable assumption, and you have taken an arbitrary figure?—Not in all cases, I suppose; but we have taken an arbitrary figure.

910. We can discuss later on how far that is what the Section authorises. In regard to your calculations on capital, I want to know this: You have told the Tribunal that you made allowances for displacements—I think that was the word that you used?—Yes, displacements not replaced.

911. Supposing you pulled down an old station and built a new one, what would you allow then? Let us take a case like Waterloo Station, which, I think, was largely rebuilt: what was done in that case?—I do not know what we done in the case of Waterloo, but the practice of the companies generally would be to charge the improved part of the building, or the enlarged part of the building, to capital account.

912. You would charge the total expenditure as capital expenditure, and allow nothing?—No.

913. That is what I want to know?—One of two things—

914. Wait a moment. Let us take one of your own stations. You have rebuilt some of your own, no doubt, and we will see if we cannot find some, so that we shall find out what you actually did do. I would always rather deal with an actual case; it is so much easier. Look at Kentish Town, on page 26?—One of two things would be done there: either the amount standing in capital account would be written out, and the cost of the new structure put in, or the estimated cost of reproducing the old structure to-day would be charged to revenue, and the balance of expenditure would be charged to capital.

915. The estimated cost of what?—The estimated cost of reproducing the old station as it stands would be charged to revenue, and the additional cost of the work would go to capital. If, for example, we had a station with three waiting rooms, and we built another station in the place of it, with six waiting rooms, half of the charge would go to capital and half would go to revenue.

916. I see. Suppose, for example, that you lost a steamship: what would happen then? That happened sometimes, unfortunately, during the war, did it not?—Yes.

917. What happens when you replace it with a new one? Do you credit to capital the amount of the insurance money, or what do you do?—Practices vary.

918. Let us know what the London and North Western Company did?—The capital cost of the old boat would be written out of capital, and the first cost of the new boat would be written into capital, or charged to capital.

919. That is to say, the capital cost shown in the books, with depreciation and all those other things taken off?—No, the original cost of the old boat would be credited to capital, and the first cost of the new boat would be debited to capital. The depreciation fund would possibly have produced the first cost of the old boat.

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920. Quite easily, I should have thought?—When the boat was taken out of service, the depreciation fund would be debited, and the capital account credited, with the first cost of the boat taken out.

921. Yes?—Then the cost of the new boat would be charged to capital; so that you will see that the only addition to capital would be the difference between the first cost of the two boats.

922. You take it out of the depreciation fund, and reduce the depreciation fund by that amount?—Yes.

923. And then you credit that to capital account?—Yes.

924. *Mr. Jepson:* I suppose that that is what you meant when you said you charged it to revenue; you charge it to depreciation?—Yes; that is, of course, if there is a depreciation fund.

925. *Sir Douglas Hogg:* My learned friend Mr. Wrottesley reminds me that it is useful to look at page 8 of your accounts. You have a number of items there, such as coaching vehicles, wagons, and things of that sort. In the middle of that page I see there is an item: "Rolling Stock: Coaching Vehicles, £56,466." Would that be an increase in the total number of wagons or coaching vehicles which you owned at that time?—They would be additions to the stock.

## Cross-examined by the SOLICITOR-GENERAL.

929. I just want to ask you one question with regard to 58 (1) (b), in order to see how you put it. It says, "Raised or provided." With regard to capital provided, I just want to know how you say that such a use of such capital out of reserve would enhance, or might enhance, the value of the undertaking. How do you relate the condition with regard to the value of the undertaking, to the providing of capital out of reserve?—I deal with it in this way: We are only dealing with an increase in the reserve since 1913, and therefore I say that so long as we do not deplete the free reserves so that they are under the 1913 figure which was at that time producing revenue in our aggregate net revenue, we are entitled to take that as capital enhancing the value of the undertaking.

930. You treat those reserves as part of the value of the undertaking, apart from any question of enhancement?—Yes; and so long as the reserves remain on deposit or are invested, they will come in as another source of revenue; but the companies are at liberty to use the moneys that have accrued since 1913, and expend them upon the undertaking.

931. To the extent to which you so use them, of course, the interest upon them does not appear below the line?—That is true; but I say that the traders are not prejudiced if I do not deplete it to such an extent as to bring it below the 1913 figure.

932. Are you not getting rather near to a double allowance? You transfer it, and, as I understand it, you claim under 51 (b) that this all ceases to be part of your revenue below the line because you have transferred it. Is not that so?—Yes; but I say that we do not deplete it below the line raised under the 1913 figure. We have large investments that are producing very much more in the way of general interest now than in the year 1913.

933. I just wanted to see how you put it. Now there is one other matter that I wanted to ask you about, and that is the proviso. This is really rather a question for the Tribunal and a question of procedure; but you will see that under the proviso at the end of Section 58, the question may arise as to the efficient and economical working and management, and there are certain allowances which the Tribunal may make on that basis. Can you tell me whether you propose to make any claim under that heading, because, at present, there is none, and it may be that the Tribunal may require assistance from the Ministry if a claim is to be made? Can you tell me at the moment whether you are making any claim? You know the proviso that I am referring to, do you not?—The matter is under consideration.

926. You would do the same when you replaced a vehicle with another, as you would do in the case of a steamboat?—No; we would replace it, and the cost of the new vehicle would be charged to Revenue: it would be against the Renewal Account, as a matter of fact.

927. When you get a charge for Rolling Stock, that all means additional rolling stock and an additional aggregate, does it not?—It would be additional in those matters.

928. If you had 100 vehicles, you would not charge anything in the way of capital until you got your total number up to 101?—Yes, 101.

*Sir Douglas Hogg:* I think that that is all I wanted to put to the witness, Sir. I hope that it is not necessary for me to make it quite clear that I am only dealing with these figures as illustrating the points of controversy which emerge, and there are arguments which I shall have to address to you about them. I am not accepting the figures merely because I do not cross-examine on the figures. I want to make that plain.

*President:* You issued some precautionary notice yesterday, Sir Douglas.

*Sir Douglas Hogg:* That is so, Sir, and I will not repeat it.

934. That is all you can say about it?—Yes, that is all I know with regard to it.

*Solicitor-General:* It may be, Sir, that the Tribunal will wish the Ministry to make some investigation, if a claim is to be made, and we should appreciate it if these gentlemen could make up their minds as early as possible as to whether they will make a claim or not, so that if any assistance is required from the Ministry, there may be no delay.

*President:* Can you give us any assistance with regard to it, Lord Advocate?

*Lord Advocate:* I am sorry, Sir, but we are not able to quantify that claim at all at the moment.

*President:* When do you think that you will be in a position to do so?

*Lord Advocate:* I cannot say. It is expressed in a way which presents extraordinary difficulty to us. It is expressed as being an encouragement to us to take early steps to effect economies; and then those economies are to be economies in working and management expenses rendered possible by, or in anticipation of, amalgamation. While we are satisfied that there are very important economies effected, the real difficulty has been, to put it quite frankly, to get them right into this category which is prescribed here. It is very difficult, and the investigation may turn out to be more than the thing is worth at the end of the day. We are really considering what we must do, at the moment. I cannot say more than that.

*President:* Does that meet your point, Mr. Solicitor?

*Solicitor-General:* The longer it is delayed, the longer the Ministry will be in making the necessary inquiries. I am sure that my learned friend understands that, of course.

*Lord Advocate:* Perfectly.

*Mr. Jepson:* Might I ask you a question, Mr. Solicitor, arising out of your first question to Mr. Quirey, about enhancing the value of the undertaking?

*Solicitor-General:* Certainly, Sir.

*Mr. Jepson:* Was the suggestion behind your question this, that if the railway company was taking away some of its reserves, even if it used them on capital account, it was thereby not enhancing the value of the undertaking, but rather the other way, crippling the undertaking?

*Solicitor-General:* At the moment, I am not really making a suggestion; but the Tribunal will ultimately have to consider this point, and I wanted to see how the witness put the matter. That is one construction of it. I am not here at the moment to



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put a particular construction on this matter, but it is one of the things that has to be investigated, and I thought it was fair to ask the witness just how he put it, because it is a matter which the Ministry will ask you to consider later on, as to exactly how far this whole theory of the provision of capital from reserve is covered by Section 58 (1) (b), and how far it is included in the enhancement of the value of the undertaking. I am not expressing any opinion about it, at the moment.

*President:* Do you think that you were successful in getting the view of the witness from that point of view, because we did not quite follow the answer that he gave.

*Solicitor-General:* I am afraid that I did not, quite; and perhaps you will give the witness another opportunity of explaining it.

935. You have heard how Mr. Jepson puts the matter, and perhaps you will try again.

*Mr. Jepson:* It was the answer that he gave to you, Mr. Solicitor. In his answer he said in effect: "We are not touching any of the reserves which had accumulated up to the end of 1912; we have only interfered with the added reserves since the 1st January, 1913."

*Solicitor-General:* I do not quite see at the moment how it answered my question. Perhaps you will put it to him, Sir.

*Mr. Jepson:* He said: "So long as we do not interfere with the reserves as they existed in 1913, we are not interfering with the net revenue of 1913, because we are not taking anything out of the reserves which was revenue-yielding in 1913."

*Solicitor-General:* That is his answer on the question of the double allowance.

*Mr. Jepson:* You asked about the relationship between that and the enhancement of the value of the undertaking under the section.

936. *Solicitor-General:* I do not know if you have followed the problem which has been put, Mr. Quirey. Perhaps you will develop it a little more. First of all, there is this question under Section 58 (1) (b), as to whether the reserves out of which you say that capital can be provided, can in any sense be said to be an enhancement of the value of the undertaking?—May I put it in this way: It is quite clear that, to the extent that the reserves were invested or on deposit in 1913, the traders would be entitled to claim that an equivalent amount should be regarded as still invested, in order to equate the investments which contributed to the 1913 net receipts. The taking of the moneys representing

free reserves will in fact deplete the general interest account to-day; but in our view, if the depletion is not below the level of the 1913 figure, we are entitled to deal with those moneys representing the free reserves which have accumulated since 1913 for capital expenditure.

937. *Mr. Jepson:* From your point of view, does it matter, provided it is capital expenditure, whether it is capital expenditure out of moneys raised, or out of moneys which have come from these extended reserves?—No. I would look upon the enhancement as being that effected by the work. I do not know that I quite follow your meaning.

938. From the Solicitor-General's remarks, he seemed to have that point in his mind, that by taking away the reserves, you would be depreciating the value of the undertaking. It might be so from a money-market or financial point of view, but there is also the other consideration of enhancing the intrinsic value of the undertaking, the suggestion being that, if you spend £100,000 on your undertaking for new works, the value of the undertaking is enhanced by £100,000.—That is so.

939. The Lord Advocate yesterday suggested that the enhancement of the value of the undertaking was the maintaining of the revenue-earning power of the undertaking.—That is one view of it—or increasing the intrinsic value.

940. *Solicitor-General:* Which is your view? Do you take it in terms of revenue, or do you say that it increases the value of the undertaking?—Intrinsic value.

941. You say that taking it from reserve and utilising it for another purpose does increase the intrinsic value of the undertaking?—Yes.

942. I am not concerned to cross-examine you about it, but I only want the Tribunal to have the point before them.—That is my view.

*Mr. Jepson:* It has nothing to do with the market value of the undertaking, according to the market value of the shares.

*Lord Advocate:* Perhaps, as my learned friend the Solicitor-General is acting as *amicus curiae*, he will give us an interpretation of the meaning of the word "undertaking," which has not yet been discussed between us at all, because these features are not part of the undertaking in the real sense at all. "Undertaking" is defined in the Railways Clauses Act as "the railway and works of whatever description by the Special Act authorised"; and there is a point which might be kept in mind, as to what really is the content of the word "undertaking," which is a matter that has not yet been discussed before you.

Cross-examined by Mr. F. G. THOMAS.

943. I have only a few questions to ask you, as most of the ground has been fully covered already. There is this common feature between the terms of the Government guarantee during the period of control and the problem to which we are addressing ourselves now, that both were based upon the results of the Railway Companies' working in 1913.—With the exception that the Government arrangement related only to the first seven items of account No. 8.

944. I agree. But subject to that qualification, it was the results of the year 1913 which governed the position of the Railway Companies when they were in the possession of the Government, just as it will in the future, after the appointed day?—Yes.

945. And from the answers which you have given to my learned friend, I gather that we are at one in this, that you must endeavour to compare like with like, and to apply the same principles both in 1913 and in the future. What I wanted to put to you upon that was that that was a principle, was it not, which was recognised by the Government during the period when they were in possession of the railways?—Yes.

946. You referred a little while ago to "the pink book." That was preceded, was it not, by some similar pronouncement of instructions as to how these

accounts should be dealt with, which was called "the blue book"?—Yes.

947. Looking at that document, on page 29 of Cmd. 1132, I see that there are there set out "Provisions for estimating Expenditure Liabilities." Have you got it before you?—Yes, I have.

948. It is rather confusing, because there are two pages numbered 29, but it is the second one. What I am reading from is the "Memorandum of Instructions to Railway Companies for the preparation of accounts to be presented by each controlled company to arrive at the amount of compensation payable by His Majesty's Government," and it is known as "The Blue Book." The paragraph in question, which is paragraph (c), is on page 29, nearly at the bottom, and it says this: "In determining the amount of revenue expenditure for the control period, each company must follow strictly the method of regulating the preparation of the accounts in 1913, and provisions to be made should be proportionate to the sums necessary for the half-year ended 31st December, 1913. Particularly should this principle be observed in setting up reserves for depreciation or provisions for maintenance of locomotives, carriages and wagons, permanent way, bridges, stations, etc."?—Yes.

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[Continued.]

949. This was the earliest set of instructions, I think, was it not?—Yes, they were the first instructions.

950. It was clearly recognised that you must endeavour, as between those two periods, to compare like with like?—Yes.

951. Following that out, there was another document, to which I would like to refer, and which is on page 32. Perhaps I ought first to refer to page 31, paragraph 12, which is part of the same document. It says: "The accounts to be submitted to the Board of Trade in support of the claim for compensation to be accompanied by statements, in the form appended hereto, giving particulars of all sums (a) provided out of, and (b) credited to, revenue, which affected the reserves of the company for the years 1913 and 1914." Of those, of course, 1913 was the basic year, and 1914 was the year which at that time was the year of Control?—Yes, the first year of Control.

952. Yes. Then there is set out on the following page, page 32, the document in question. Before I refer to that, I should perhaps say that I rather gathered that while we were at one on principle as to the necessity of comparing like with like, you rather feel the burden of the difficulty of dealing with the 1913 accounts, having regard to the changes in personnel and other changes which have occurred since then. I am right in thinking that, am I not?—Yes.

953. What I wanted to call your attention to was that in these returns which the Government, for the purposes of their obligations, then regarded as necessary, there was a very complete statement required of all these transactions in the year 1913. That is so, is it not?—The amount provided for depreciation and suspense account, and the amount expended. That was during control.

954. Yes. You see that there is there the total on account of depreciation and suspense accounts, for example, and permanent way, stations, bridges, and all those items. Then the amount provided in 1913 is set out and the amount expended; and then the 1914 figures similarly, and then there is a column, which I think is also relevant here, "Basis on which the amount provided has been calculated"?—Yes.

955. So that it does appear that in those returns there is a very complete record of the transactions in the year 1913, relevant to those accounts?—There is the total amount provided and the total amount expended, of course, for each of those transactions.

956. Yes, and there is a statement of the basis upon which the amount is calculated?—Yes; that is the years of life of locomotives, and the number of miles relaid per annum.

957. Mr. Lockett: I suppose that these accounts in this form have been sent to the Ministry?—Yes.

958. And they could be supplied by the Ministry if required?—I have no doubt that they have them in their custody.

959. So that there is a record?—Yes.

960. Mr. F. G. Thomas: And, of course, it is common knowledge, is it not, that in these matters there was a widely-varying practice as between the various companies?—There were differences of practice, but not wide differences.

961. And those differences of practice would be reflected as between group and group and as between the constituents of each group?—Yes.

962. You might very well have, for instance, one constituent company which for a particular purpose did not think it necessary to have a reserve fund,

and did not make contributions to it. That company, we will say, becomes amalgamated with other companies in a group which has a more conservative policy, and whose policy then would apply to the constituent company that I first mentioned. Of course, I am only putting a problematical case in order to illustrate the point. But that would happen, would it not?—Yes; but the first company, which was a non-provision company, might as a fact have incurred expenditure for those transactions in the year 1913.

963. It might have done so, but that, of course, is a matter of uncertainty; and it might very well be that it had not incurred expenditure?—Yes.

964. The two things are equally probable?—Yes.

965. And to the extent that under the general practice of the group it becomes the policy to make reserves (which policy would apply to that constituent company), you are not really comparing like with like?—Well, the practice may be actively changed. The first company, which did not make a provision, may either have incurred expenditure on renewals during the year 1913 or may have indulged in heavy repair work, which we now find pretty well uneconomic. We have been going into the matter pretty closely, and our policy will be to undertake as much renewal work as possible, so as to keep the life of the stock and of the way as low as possible, and so prevent a heavy outlay upon repairs.

966. But those facts, as relating to the year 1913, would be shown by those returns which were made to the Government?—Yes; those would apply, of course, to the provision companies.

967. Mr. Jepson: There would be no such return made by the people whom you call the non-provision companies?—No.

968. You were giving an illustration just now, and I should be glad if you would kindly amplify it. In the year 1913, for instance, a non-provision company might have spent a very large sum in heavy repairs, or in renewals, and might have charged it all to that one year, instead of the cost being met out of depreciation (which would be a fund accumulated out of revenue in other years) as would be the case with a provision company?—Yes; I can give you an example of that at once, out of the large volume of the London, Midland and Scottish Company. On page 105 there is the Glasgow and South Western Railway, which was not a provision company for locomotives. If you will look at page 110 you will see that the Glasgow and South Western Railway Company expended upon complete renewals, wages and materials, only £6,374; but they purchased new locomotives to the extent of £68,100. Then if you will look at page 117, you will observe there that the locomotives renewed in the company's workshops were 5, those renewed by contract were 21, and the total engines renewed on the Glasgow and South Western Company were 26. But on the previous page, page 116, you will see that there is a total stock of 521 engines, and therefore they renewed them on the basis of 20 years' life for an engine, which is just about half the period. Had the Glasgow and South Western Company been a provision company, their outlay in the year 1913 would have been half the amount that they charged to revenue.

President: Do you think, Mr. Thomas, that you will have any difficulty in picking up the thread of your cross-examination in the morning?

Mr. F. G. Thomas: No difficulty whatever, Sir.

President: Very well, then we will adjourn now.

(Adjourned till to-morrow at 10.30 a.m.)

28 May, 1924.]

MR. JOHN QUIREY.

[Continued.]

## APPENDIX.

*Handed-in by Mr. Quirey.**Railways Act, 1921. Standard Revenue (Sect. 58).*SUMMARY STATEMENT OF CAPITAL RAISED AND PROVIDED IN RESPECT OF CAPITAL EXPENDITURE  
SINCE 31ST DECEMBER, 1912.

	London and North Eastern Railway.	London, Midland and Scottish Railway.	Great Western Railway.	Southern Railway.	Total.
Claim under 58 (1) (a)	£ 14,154,478	£ 11,540,426	£ 7,827,557	£ 3,839,135	£ 37,361,596
Less— Expended prior to 1913 ... ..	3,721,530	899,343	2,158,611	413,087	7,192,571
Less— G.W. Fishguard Expenditure in- cluded in 58 (1) (a), but not in G.W. Accounts	10,432,948	10,641,083	5,668,946	3,426,048	30,169,025
			355,306		355,306
	10,432,948	10,641,083	5,313,640	3,426,048	29,813,719
Claim under 58 (1) (b)	3,188,165	3,859,135	5,763,180	792,050	13,702,530
Add— Expenditure charged in 1913 or subsequently for works brought into use prior to 1913 ...	13,621,113	14,600,218	11,076,820	4,218,098	43,516,249
	250,074	29,485	116,868	21,438	417,865
	13,871,187	14,629,703	11,193,688	4,239,536	43,934,114
Proceeds of New Capital raised ...	4,401,453	5,553,504	5,298,615	2,959,520	18,213,092
Increase in Free Re- serves including Government Com- pensation ... ..	8,847,245	15,900,475	5,201,209	2,186,207	32,135,136
	13,248,698	21,453,979	10,499,824	5,145,727	50,348,228
Apparent Surplus or shortage of raised and provided ex Free Reserves ... ..	Deficiency 622,489	Surplus 6,824,276	Deficiency 693,864	Surplus 906,191	Surplus 6,414,114
	£13,871,187	£14,629,703	£11,193,688	£4,239,536	£43,934,114







